Massey-Ferguson Limited

Annual Report
1978

Massey-Ferguson Limited

200 University Avenue, Toronto, Canada, M5H 3E4

Contents

The Business of Massey-Ferguson

Massey-Ferguson is a Canadian-based, multinational corporation that manufactures farm and industrial machinery, diesel engines and construction machinery. Farm and industrial machinery and diesel engines are sold on a world-wide basis; construction machinery, manufactured in Europe, is sold there and in selected markets elsewhere. The Company, together with its Associates and licensees, manufactures its products in 90 factories in 30 countries.

Dividends

On December 20, 1977, a dividend of 25 cents (Canadian funds) was paid to common shareholders of record as of November 25, 1977, for the last quarter of fiscal 1977. A dividend of 62½ cents (Canadian funds) was paid to Series B preferred shareholders on December 31, 1977 and to Series A preferred shareholders on January 31, 1978.

The Company announced on February 14, 1978, that dividends would not be paid on the common shares for the fiscal quarter ended January 31, 1978, and would not be paid to Series B preferred shareholders on March 31, 1978, or to Series A preferred shareholders on April 30, 1978, because of a dividend restriction in a senior note issue (this restriction is set out in detail in Note 6(b) on page 28). No further dividend action on the preferred or common shares can be taken until accumulated net income reaches the level required under the dividend restriction formula.

10-K Report

A copy of the Company's 10-K report for 1978 is available to shareholders upon request to the Company Secretary.

Annual Meeting

The Annual Meeting will be held in the Ballroom of the Royal York Hotel in Toronto, Canada, at 12 o'clock noon, on Thursday, March 8, 1979.

Le rapport du conseil aux actionnaires et certains extraits du rapport annuel en français peuvent être obtenus sur demande en s'adressant au Secrétaire de la compagnie.

Financial Highlights

		1978	1977
Operating Summary *(Millions of U.S. Dollars)*	Net sales	**$ 2,925.5**	$ 2,805.3
	Net (loss) income	**(256.7)**	32.7
Financial Status *(Millions of U.S. Dollars)*	Net current assets*	**$430.3**	$696.6
	Long-term debt*	**651.8**	616.4
	Capital and retained earnings	**540.5**	806.6
Per Common Share *(U.S. Dollars)*	(Loss) income (after cumulative dividends on preferred shares)	**$(14.53)**	$1.26
	Common dividends paid *(Canadian Dollars)*	**0.25**	1.08
	Equity	**24.37**	38.71
Statistical Data	Number of employees	**57,983**	67,151
	Number of shareholders		
	Common	**31,353**	30,619
	Preferred	**11,370**	10,208
	Shares outstanding (thousands)		
	Common	**18,250**	18,250
	Preferred		
	Series A	**1,526**	1,600
	Series B	**2,299**	2,399
	Percentage of ownership of common shares by registered residence		
	Canada	**57.9**	58.0
	United States	**40.7**	40.0

*excludes Finance Subsidiaries.

Directors and Management

Board of Directors

Conrad M. Black
Chairman of the Board

Albert A. Thornbrough
Deputy Chairman of the Board and Chief Executive Officer

The Marquess of Abergavenny
Ralph M. Barford
G. Montegu Black
Dixon S. Chant
Fredrik S. Eaton
Gilbert W. Humphrey

H. N. R. Jackman
John D. Leitch
A. Bruce Matthews
F. David Radler
Victor A. Rice

A. M. Runciman
J. Page R. Wadsworth
Trumbull Warren
Colin W. Webster
The Duke of Wellington

Committees of the Board

Audit committee
Trumbull Warren
Chairman
H. N. R. Jackman
John D. Leitch

Compensation committee
J. Page R. Wadsworth
Chairman
Colin W. Webster
John D. Leitch

Nominating committee
Conrad M. Black
Chairman
J. Page R. Wadsworth
Trumbull Warren

Head Office Management

*Albert A. Thornbrough
Chief Executive Officer

*Victor A. Rice
President and Chief Operating Officer

*Douglas Barker
Vice President and Treasurer

*M. H. Cochrane
Vice President Planning and Business Development

*D. L. Douglass
Vice President World Export Operations

*D. C. Hayes
Secretary

*M. R. Hoffman
Vice President Engines

*D. G. Kettering
Vice President North American Operations

*V. D. Laurenzo
Vice President and Comptroller

*W. K. Mounfield
Vice President Administration

*R. Ramsay
Vice President European Operations

*D. G. Sadler
Vice President Manufacturing and Supply

M. G. Bird
Director Legal Services

C. E. Dickman
Director Organization & Assistant to the President

P. J. Dixon
Director Management Systems

******Officers of the Company***

Other officers of the Company:
R. D. Garland ***Assistant Secretary;***
V. de Mesquita, W. H. Mason, and G. F. Ryan, ***Assistant Treasurers.***

Operations Management

North American Operations
D. G. Kettering
Vice President

United States
D. G. Kettering
President
Massey-Ferguson Inc.

Canada
W. A. Murray
President
Massey-Ferguson Industries Limited

European Operations
R. Ramsay
Vice President

Construction Machinery Operations
J. J. Campbell
General Manager

European Parts Operations
J. L. Egan
General Manager

France
D. B. Long
General Manager

West Germany
U. Brinkmann
General Manager

Italy
J. J. Campbell
General Manager

United Kingdom
H. J. Hebden
General Manager

Southern Hemisphere Operations

Argentina
R. J. Solari
General Manager

Australia
M. E. Davis
General Manager

Brazil
J. A. Engelbrecht
General Manager

Mexico
A. Baca
General Manager

South Africa
L. B. Knoll
General Manager

World Export Operations
D. L. Douglass
Vice President

Americas Export Operations
A. A. Busto
General Manager

Asia/Africa Export Operations
H. C. Franklin
General Manager

European Export Operations
J. D. Parsons
General Manager

Engines Group
M. R. Hoffman
Vice President

Sales and Marketing
R. C. Clarke
Group Director

United Kingdom
A. J. Parsons
Executive Director Operations

North America
D. L. Petersen
Executive Director Operations

Latin America & Caribbean
J. M. Felker
Executive Director Operations

Report of the Directors to the Shareholders

For the year ended October 31, 1978

1978 – A Year of Difficulties and Change

Many of Massey-Ferguson's problems identified in the 1977 Annual Report and in the 1978 Quarterly Reports began to emerge following the completion of our 1976 record year. Initially in Brazil and subsequently in Argentina, rapid and sharp declines in farm machinery sales were experienced when credit and monetary restrictions were imposed as counter-inflationary measures. In North America, declining farm prices and income resulted in growing discontent among U.S. farmers. In the European Economic Community, weather conditions reduced food production in 1977 and demand for farm machinery slackened. Total world demand for farm machinery, which began to fall in 1977, continued downward in 1978, and Massey-Ferguson's sales in such major markets as Europe, North America, Brazil, Australia and Argentina were affected adversely.

In terms of manufacturing capacity, the six-year period prior to 1977 was one of general expansion in the farm machinery industry. With the subsequent downturn in demand, inventory levels in monetary terms became unacceptably high and their carrying cost in a period of rising interest rates eroded profitability. Moreover, excess inventories and manufacturing capacity intensified competition in some markets causing serious deterioration of profit margins. During most of this period, Massey-Ferguson's capital expenditures were at a high level and were directed largely to additional productive capacity and new products in response to market requirements. These expenditures amounted to $700 million during the past five years, although the annual rate was at a reduced level in 1977 and 1978.

Since the most serious and immediate problem facing the Company in 1978 was an unacceptably high level of inventories, particularly work-in-process, the Directors endorsed management decisions in the first quarter to shut down or cut production in most of the Company's factories. These initial steps were followed by actions to reduce manpower; to restructure the construction machinery marketing and sales organization; to rationalize manufacturing operations, particularly in North America and Europe; and to close down and dispose of excess facilities and unprofitable or peripheral businesses. These decisions, which encompassed fundamental and radical changes and required a major provision for reorganization expense, must be viewed as the cost of assuring that profitability in future years will provide an adequate rate of return on the assets of the Company.

We are now able to report that our objectives of manpower and inventory reductions were achieved in 1978. Manpower was cut by 9,000 and inventories were brought below the level of October 31, 1977. The Company also disposed of certain surplus facilities and unprofitable or peripheral elements of its business during the year.

Actions will continue during 1979 to reduce manufacturing costs, to rationalize facilities and to eliminate unprofitable products. We do not anticipate that these actions will require any further provision for reorganization expense.

Victor A. Rice, President and Chief Operating Officer (left) and Conrad M. Black, Chairman of the Board.

The Directors have been working closely with management to restore profitability and strengthen the Company's financial position. Although many of the steps taken to date may appear to be short term in nature, they fall within the framework of a longer-term strategy developed by management. This strategy has as its objectives the building of an ongoing, stable earnings base and a strong balance sheet position, both

factors being necessary for the resumption of dividends, which were discontinued because of the Company's losses in 1978.

Board and Management Changes

During 1978, the composition of the Board was altered and its structure was revised.

The Directors record with regret the deaths of John A. McDougald on March 15 and Charles L. Gundy on September 15. They were outstanding Canadian industrial and financial leaders and served as Directors for nearly 30 years.

Following the death of Mr. McDougald, A. Bruce Matthews was elected Chairman in an interim capacity and served until August 16 when he retired in favour of Conrad M. Black, President of Argus Corporation Limited.

Vacancies also occurred through the retirement of John G. Staiger and the resignation of John E. Mitchell, both of whom were senior executives of the Company.

Ralph M. Barford, Chairman of G.S.W. Limited, and Conrad M. Black were appointed Directors on April 17. Victor A. Rice, President of the Company, was appointed a Director on September 8 and F. David Radler, President of Sterling Newspapers Limited, on November 28.

On December 22, 1978, Alex E. Barron and Maxwell C. G. Meighen resigned from the Board and, on January 5, 1979, Dixon S. Chant, G. Montegu Black and Fredrik S. Eaton were appointed Directors.

In the revision of the Board's structure, the Directors resumed in October those responsibilities previously exercised by the Executive Committee. The Board now has three standing committees: the Audit Committee, the Compensation Committee and the Nominating Committee.

A number of senior management changes were announced in 1978, the principal one being the appointment of Victor A. Rice as President and Chief Operating Officer on September 8. Mr. Rice succeeded Albert A. Thornbrough who had been President since 1956 and who continues to serve as Deputy Chairman of the Board and Chief Executive Officer.

The Directors wish to affirm their confidence in the experienced management team which has been chosen to restructure and direct the Company's activities toward long-term strategic objectives. The new structure is described in the Management Discussion and Analysis Section of the Report.

1979 – A Year of Transition and Rebuilding

The Company will face continuing economic uncertainties in 1979 such as currency fluctuations (some of which may be favourable); continuing inflation, which has the effect of increasing asset levels and borrowings; strong competition resulting from excess manufacturing capacity in the farm machinery industry; and some downward pressure on farm commodity prices as a result of higher carry-over stocks going into 1979.

On the positive side, the Company will complete in 1979 the introduction of its new line of two-wheel- and four-wheel-drive tractors in the 90 to 325 horsepower range. These new products will make Massey-Ferguson fully competitive in North American and European markets and will demonstrate the Company's ability to design, produce and market large tractors as successfully as tractors in the 40 to 90 horsepower range. New or improved models of combines, industrial machinery, construction machinery and engines will also become available in 1979.

The new centralized marketing and sales structure for construction machinery enabled the Company to increase its 1978 sales under strongly competitive conditions. Rationalization of our European manufacturing activities to assure cost-effective production will be completed in 1979. These actions will support the commitment of our construction machinery management to achieve a break-even or better position by 1980.

The Company continues to be a leader in the diesel engine business and is finding attractive growth opportunities. Perkins management is committed to continuing improvement of its delivery capability and of the performance and reliability of its products. In the longer term, the basic factors which make the diesel engine a desirable and acceptable power unit will continue to support Perkins' growth.

Indicated demand for Massey-Ferguson products in our traditional markets as well as in the developing countries of Asia and Africa provides assurance that the Company's position in world markets is soundly based. The Company will begin to realize in 1979 the benefits of maturing joint ventures and assembly/manufacturing projects in some of these countries including the Polish tractor project.

In summary, the Directors are convinced that changes in the organization structure and related appointments will enable management to deal effectively with the Company's problems. Successful implementation of management decisions and actions taken in 1978 should place Massey-Ferguson in a position to meet future economic and market changes.

Thus, 1979 should prove to be a year of transition during which the Company will be establishing a sound basis for its future profitable growth.

We are grateful for the support and understanding of our shareholders, employees, distributors, dealers and lenders during the difficulties and changes of 1978.

On behalf of the Board,

Conrad M. Black
Chairman of the Board

Victor A. Rice
President and Chief Operating Officer

Toronto, January 5, 1979

Management Discussion and Analysis of Operations

In prior years, this section of the Report dealt primarily with specific aspects of the Company's operations. This year, broadened management discussion is provided by the President in view of the magnitude of the problems, the corrective decisions and actions, and the basic changes needed to develop a new strategy and organization.

Management Discussion

In response to unacceptable results during 1978, drastic actions were taken to counteract serious operating losses and a deteriorating financial position. These actions resulted in manpower cuts of 9,000 and a major reduction in Company inventories in the latter half of the year. Studies have been completed and a major program is underway to rationalize manufacturing operations and to dispose of excess facilities or peripheral businesses and eliminate unprofitable products. Some progress was made in 1978, principally the sale of the office furniture division in Canada and the garden tractor operations in the United States. Closure of the plant in Akron, Ohio and the relocation of its production of industrial machinery was announced in December.

The study of our European manufacture of harvesting machinery indicates that the production of combines should be consolidated at Marquette, France, and that production of balers should be transferred from Marquette to Kilmarnock, Scotland. Such a move would result in a reduction of 1,000 in the work force. Other studies are continuing with the objective of further rationalization of production facilities in North America and Europe. As factories such as Akron become surplus they will be offered for sale.

Many of the actions initiated in 1978 are ongoing and their full impact will not become evident until well into our 1979 fiscal year. Some of these actions will result in basic changes in objectives, activities and organization. They will focus management attention on specific areas of the business and will ensure that the Company is structured to achieve consistently profitable operations and a financially acceptable balance sheet. The long-term objectives and the organizational structure designed to accomplish them are described below.

Decisions and actions to redress the Company's loss position and to permit restructuring of the business in line with long-term objectives have required a very large provision in the 1978 accounts for reorganization expense of $116 million. This provision covers the cost of redundancy programs and the rearrangement of manufacturing activities undertaken or anticipated in Europe and North America.

Reorganization and Senior Management Changes

The reorganization of the Company is taking place in two concurrent phases. One of these is an ongoing, long-term study to determine the best organizational structure for managing the business. This structure is planned to be in place by November 1, 1979. In the interim, evolutionary changes consistent with the study will be made in management responsibilities. Some of these changes were announced in December 1978 and further changes and refinements will be made during 1979.

The main thrust of the new organization is the development of a "core business" concept to replace the decentralized, regional structure that operated in the 1972-78 period. For Massey-Ferguson the core business, as currently defined, embraces the manufacture and sale of major machines, related components and replacement parts from production facilities in the United Kingdom, France, Canada and the United States.

In addition to the core business, the five operations units in the recently formed Southern Hemisphere Operations have manufacturing activities whose growth will depend primarily on local earnings and financing sources. Financial support from the Parent Company will depend upon continuing successful results from the core business and upon an assured, adequate return from these operations units.

The developing countries of Asia and Africa offer attractive potential opportunities for Massey-Ferguson by way of export sales, joint ventures and licensee arrangements. The Company reported some significant successes in these countries in 1978. Additional projects now in the negotiation stage are expected to be completed in 1979.

As mentioned previously, changes in management structure in 1978 were largely related to short-term objectives and priorities for improving the core business. These changes recognized special problem situations, realigned responsibilities where appropriate and provided new management where necessary. For operations outside the core business and for certain markets in the developing countries, the structure provides for long-range planned growth and development.

Manufacturing and supply, marketing and sales, planning and business development, and world export operations are being regrouped and strengthened for more effective Head Office management attention. Manufacturing and supply replaces and broadens the former logistics function; planning and business development will focus attention on strategic planning and on joint ventures, Associate Company activities and licensee operations; the world export organization will restore a centralized approach to marketing and sales in our export markets; and operations units in the Southern Hemisphere Operations will be placed under a senior Head Office executive. The chart on page 7 shows the new management structure as of December 31, 1978.

One of the key elements in restructuring the business is a strong emphasis on management commitment. To make this effective, major changes in the Company's planning and control systems will provide improved standards against which commitments can be made. Increased emphasis will be placed on "return on average assets employed" which will be defined for each accountable unit and will be the basis for management commitment for the current fiscal year and the immediately ensuing years. This approach will create an operating environment in which achievements can be measured and success or failure treated appropriately.

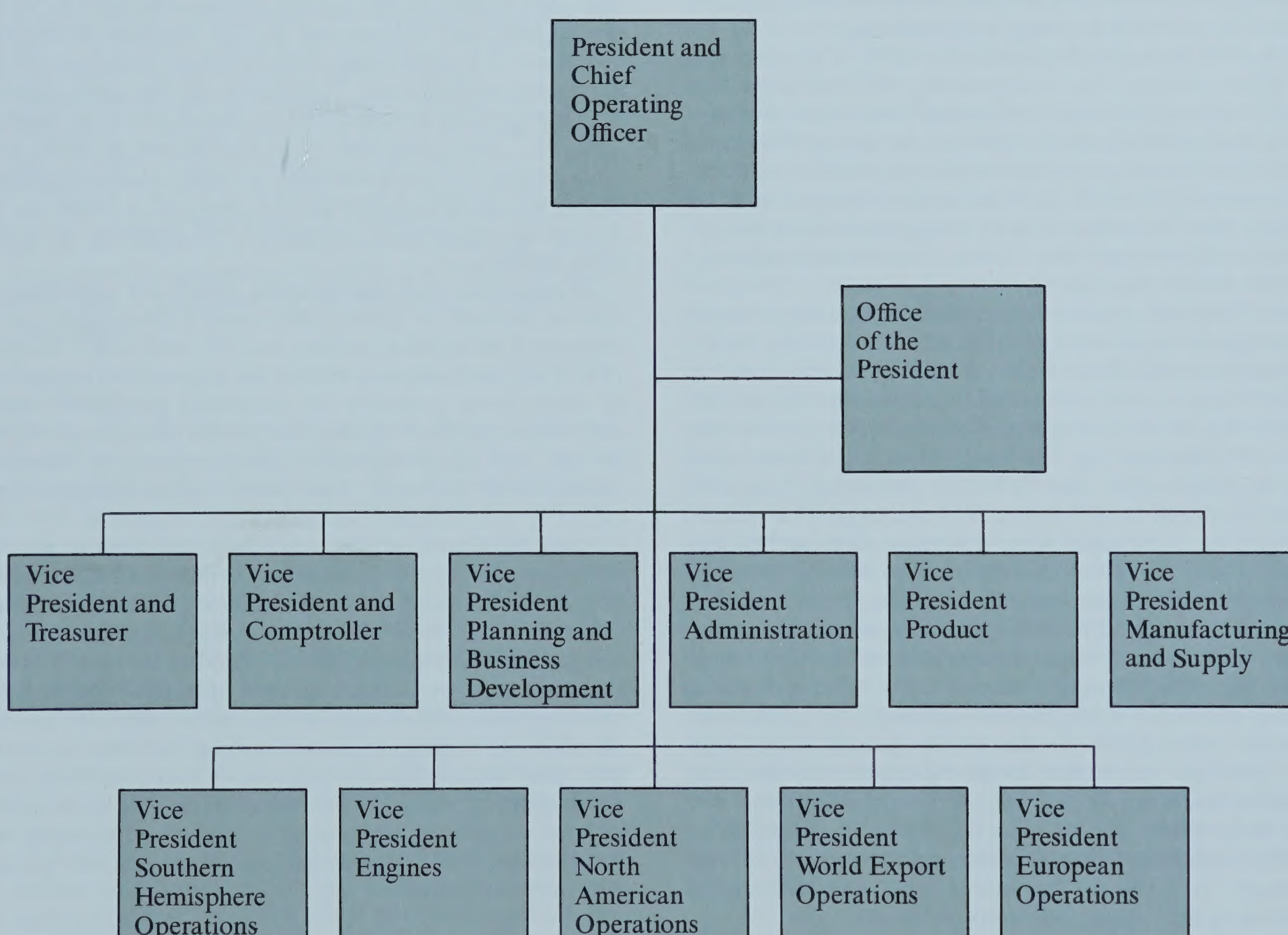
Management actions in 1978 were the initial steps in a long-range strategy to redeploy financial resources and man-

(1) *D. Barker, Vice President and Treasurer; M. H. Cochrane, Vice President Planning and Business Development; W. K. Mounfield, Vice President Administration; and D. G. Kettering, Vice President North American Operations.* (2) *W. A. Murray, President, Massey-Ferguson Industries Limited and D. C. Hayes, Secretary of the Company.* (3) *M. H. Hoffman, Vice President Engines.* (4) *D. B. Long, General Manager France; V. D. Laurenzo, Vice President and Comptroller; J. J. Campbell, General Manager Construction Machinery Operations; and D. G. Sadler, Vice President Manufacturing and Supply.* (5) *R. Ramsay, Vice President European Operations and H. J. Hebden, General Manager United Kingdom.*

power in support of our core business concept. The achievement of a sound, ongoing core business is our first priority; all other operations and market opportunities, while important parts of Massey-Ferguson's total business, will be viable only if we build our core business on a sound financial base and ensure that it earns an adequate and consistent return on assets.

Victor A. Rice
President and Chief Operating Officer

Massey-Ferguson Limited
Management Organization



December 31, 1978

Analysis of Operations

The 1978 operating results contain two major adverse items which are dealt with below under separate headings–provision for reorganization expense and exchange adjustments.

Provision for Reorganization Expense

The Report for the first quarter of 1978 described the Company's problems and stated that corrective action programs had been recommended by management, approved by the Board of Directors and were being implemented. Expenditures for manpower redundancies, reorganization of worldwide manufacturing operations and discontinuance of unprofitable product lines continued throughout the year. Provision was made for further expenses anticipated to complete these programs. The total charge in 1978 was $116.0 million. (See Note 10, page 31.)

Exchange Adjustments

Exchange adjustments recorded in our statements arise (i) as a result of actual transactions by our Company and its subsidiaries in foreign currencies such as incurring foreign currency debt and buying or selling on credit goods whose prices are stated in a foreign currency (transaction exchange adjustments) and (ii) as a result of translating the accounts of our subsidiaries that are denominated in foreign currencies to U.S. dollars for inclusion in the Company's consolidated financial statements (translation exchange adjustments).

Included in our operating results for 1978 is an exchange loss of $90.9 million. The corresponding 1977 exchange loss was $22.3 million. In order to evaluate the results of operations of a multinational corporation such as Massey-Ferguson, it is important to understand the reasons why such a large loss has been recorded. In 1978, the substantial exchange loss arose principally from the translation of foreign currency financial statements rather than from actual transaction exchange losses. (See Note 1 (b), page 27.)

Massey-Ferguson applies the controversial exchange translation principles enunciated in Statement No. 8 of the Financial Accounting Standards Board (FASB 8) which states, in part, that foreign currency inventories and fixed assets must be translated at rates of exchange in effect when those assets were produced or acquired (i.e., historical rates) while most other foreign currency assets and liabilities, including long-term debt, are translated at year-end rates of exchange. This means, in the case of a manufacturing company such as Massey-Ferguson which maintains and finances by foreign currency borrowings a large investment in fixed plant and inventories, that foreign exchange adjustments are being recorded on more liabilities than assets. If the exchange value of the U.S. dollar is weakening, which was the case in 1978 when the major European currencies strengthened substantially against the U.S. dollar, particularly in the fourth quarter, then large foreign exchange translation losses will occur. Of the total exchange adjustment shown for 1978, approximately $74 million occurred in the last quarter. However, it should be noted that such translation adjustments are unrealized and will reverse in 1979 to the extent that the U.S. dollar strengthens against major European currencies.

Massey-Ferguson's management remains sceptical of the FASB 8 theory of translation as a practical tool for the management of a multinational corporation.

Sales

Sales of $2,925.5 million were up 4.3 per cent from 1977 sales which were up 1.2 per cent from 1976 sales of $2,771.7 million. After taking into account the effect of inflation, it is apparent that sales have declined in physical terms during the past two years. This is in sharp contrast to earlier years of the 1970's when sales increased from $937.9 million in 1970 to $2,513.3 million in 1975–an increase of 268 per cent in five years.

Sales in 1978 in our three largest markets increased over the two years since 1976 as follows: in the United States, 7.4 per cent to $689.1 million; United Kingdom, 49.2 per cent to $336.3 million; West Germany, 57.5 per cent to $288.4 million. Conversely, sales declined from 1976: in Brazil by 35.5 per cent to $260.4 million; in Canada by 11.5 per cent to $188.7 million; and in Argentina by 53.2 per cent to $34.0 million. Each market has its own characteristics.

In the case of Germany, sales figures were favourably affected by the increased value of the mark in relation to the U.S. dollar. For Canadian sales, the exchange rate relative to the U.S. dollar, our reporting currency, was a significant negative factor. Because of inflation and credit restrictions, sales in Brazil and Argentina have declined and this has resulted in significant over-capacity in the farm machinery industry. Argentine sales took a severe downturn in December, 1977 and for the 1978 fiscal year were 69 per cent below 1977.

Cost of Goods Sold

Since 1976, cost of goods sold increased by 12.0 per cent or $253.7 million while sales increased only 5.5 per cent or $153.8 million. Cost of goods sold in 1978 was 81.1 per cent of sales (the highest in the last ten years), compared to 78.8 per cent in 1977 and 76.4 per cent in 1976. Much of the deterioration since 1976 stems from under-utilized capacity and manufacturing inefficiencies. In addition, startup costs associated with new product introductions increased cost of goods sold.

In 1977, price increases were insufficient to cover higher costs because of price controls in many of the countries in which we operate. Although this was still a factor in 1978, increasing competition prevented full recovery of costs in some markets.

Depreciation and amortization, which are significant factors in the cost of goods sold, were $77.4 million in 1978 compared with $68.6 million in 1977 and $54.3 million in 1976. This sharp increase reflects the high capital expenditures of recent years primarily for additional productive capacity and for new products. In addition, as old facilities are replaced by new and more expensive ones, depreciation charges are substantially increased. This adverse effect is offset to some extent by more efficient and less costly operations.

Until the advent of new Canadian and U.S. standards of accounting for exchange translation, margins reflected in our U.S. dollar financial statements were approximately the same as those in the local currency statements of our subsidiary companies. With the adoption of FASB 8 the cost of inventories must now be charged to cost of goods sold at historic exchange rates rather than current rates. Sales continue to be translated at average exchange rates for the year. The result is that sales margins in U.S. dollars may vary significantly from the margins expressed in local currencies. This factor makes it difficult to provide a meaningful analysis of changes in our consolidated cost of goods sold (see comment on "Exchange Adjustments" above).

Expenses

Marketing, general and administrative expenses of $372.0 million in 1978 were 12.7 per cent of sales compared to 11.8 per cent in 1977 and 11.1 per cent in 1976. Expenditures in 1977 and 1978 reflected increased competitive conditions in the farm and industrial machinery industry as demand declined and excess productive capacity developed.

Engineering and product development expenses declined by $1.5 million in 1978 with the completion of many new product introductions and the realignment of some areas of our business. Expenditures of $66.0 million were 2.3 per cent of sales, compared with 2.4 per cent in 1977 and 2.2 per cent in 1976.

Interest expense continued to grow disproportionately in comparison with the two preceding years. Combined short- and long-term interest expense was $100.6 million or 3.6 per cent of sales in 1976, $151.0 million or 5.4 per cent in 1977 and $186.6 million or 6.4 per cent in 1978. Maturing long-term loans continue to be replaced at higher rates. The net loss of 1978 also required increased short-term borrowing. In spite of successful actions to reduce year-end asset levels, the average level of assets in 1978 was higher than 1977. With inflation at double-digit levels in many parts of the world, short-term interest rates have remained high. Toward year end, interest rates increased further in North America and the United Kingdom, two of our major borrowing sources.

Miscellaneous income of $10.5 million is slightly higher than the $10.3 million of 1977 and 1976. This consists of royalties, fees and profit on disposal of fixed assets.

Equity in Net Income

The income of our finance subsidiaries reached a record $16.3 million in 1978 compared with $8.5 million in 1977 and $6.4 million in 1976. The 1978 result was due to continuing growth in the portfolio of the North American finance companies, the formation of a finance company in Germany and the first full year of operation for the Italian finance company.

As a result of a decision to cease equity accounting for one of our Associate Companies as of the end of the third quarter, the equity income from Associate Companies dropped from $5.1 million in 1977 to $4.6 million in 1978. This decision was related to the Company's reduction in share ownership which occurred as the result of a decision not to subscribe during 1978 for convertible debentures issued by that Associate and a decision to seek a purchaser for our remaining interest. (See Note 1 (d), page 27.)

Income Taxes

As stated in 1977, the relationship between income taxes and pre-tax profits can be significantly affected by the varying rates of tax applicable to taxable income of subsidiary companies and by fluctuations in the contribution of each subsidiary to consolidated income. Additional distortions are caused within those countries which do not permit the losses of one company to be set off against the profits of another in the form of group relief or consolidated tax returns. This results in tax being paid where there is an overall loss in the country. (See Note 4, page 28.)

Continuing high levels of inflation in most countries resulted in generally higher costs when inventories were replaced. However, no relevant new tax relief legislation was enacted during 1978 in countries where Massey-Ferguson has major operations.

Our United Kingdom companies have had the benefit of $72.7 million from inventory tax relief allowances for the six years ended October 31, 1978. This tax is carried on the balance sheet as a current tax deferral (i.e., included in arriving at the amount shown for net current deferred tax credits in Note 4 to the Consolidated Financial Statements) rather than being reflected in the income statement as a reduction of tax expense. The Chancellor of the Exchequer in the United Kingdom has announced that, in the absence of any further progress toward achieving an acceptable standard of inflation accounting, he will propose in the 1979 Finance Bill to make the tax relief permanent after six years. The positive effect that this would have upon Massey-Ferguson's earnings cannot be determined until the legislation is enacted.

Financing

Adequate long- and short-term debt was maintained during 1978 despite large net losses in each quarter. Our banks and long-term lending institutions world-wide have shown understanding and given support in this difficult period. We are reviewing various alternative ways of improving our debt to equity ratio.

Placements were made late in fiscal 1977 with U.S. institutional investors of $147.0 million of convertible, subordinated notes, and early in the 1978 fiscal year of $150.0 million of senior notes. Subsequent borrowings were limited to additional financing in the operating companies amounting to $53.9 million, the largest being a seven-year borrowing of 102.5 million French francs ($25.6 million) by our French company.

After accounting for a $29.5 million increase resulting from exchange translation of foreign currency indebtedness and repayments totalling $139.4 million, the total gross funded debt of the Company at October 31, 1978, was $766.8 million, of which $115.0 million matures within one year. After reclassification of $39.4 million of short-term borrowings subsequently repaid out of the long-term debt raised in November 1977, the corresponding figure in our October 31, 1977, balance sheet was $712.2 million, of which $95.8 million matured within one year.

A number of our debt agreements contain undertakings by Massey-Ferguson to maintain Consolidated Net Tangible Assets at a minimum level in relation to Consolidated Funded Indebtedness and at October 31, 1977, this minimum ratio was 200 per cent. As reported with the second quarter results, an adjustment of this ratio to 175 per cent was granted by the Company's lenders. However, continuing losses, including provision for reorganization expense, resulted in further depletion of net worth in 1978 which prompted a request for a further reduction. Effective in October 1978, an adjustment to 150 per cent was granted by our lenders. Concurrently, the minimum ratio of current assets to current liabilities was reduced from 145 per cent to 130 per cent and, in October 1978, to 120 per cent. These revised ratios are to remain in force until October 31, 1979, when they revert to 175 per cent and 130 per cent, respectively. On October 31, 1980, they will be restored to 200 per cent and 145 per cent.

To replace maturing debt and to finance the planned volume of receivables, our Canadian finance company entered into new medium-term arrangements for $25.0 million (Canadian) of senior debt maturing from 1982 to 1984. In November, 1977 our finance company in the United States sold $30.0 million of senior notes maturing from 1980 to 1983 which were used to reclassify short-term debt in the 1977 fiscal year's accounts. In addition, senior debt of $30.0 million and subordinated debt of $20.0 million, both maturing from 1981 to 1983, were placed on the Eurodollar market by the U.S. finance company.

Capital Expenditures

The 1978 plan for capital spending of $140.0 million was reduced by management actions. Actual expenditures in 1978 totalled $99.3 million, the lowest level since fiscal 1973. The 1978 expenditures can be divided into three main categories: new product and volume related projects, $51.9 million; re-

placement and rehabilitation of facilities and machinery, $30.1 million; and safety and environmental requirements, $17.3 million. The 1978 expenditures for new products broadened the product lines and should enable the Company to improve its market share. These new products will strengthen the "core business" concept described earlier.

Although approved capital expenditure programs outstanding at the year end were $115.0 million, actual capital expenditures for 1979 are planned to be approximately $80.0 million which is considerably below 1978 and is less than the 1979 planned depreciation and amortization of $91.7 million. The reduction reflects primarily the completion of a long-range program to develop new and broader tractor and combine lines. The 1979 capital expenditure program will be directed toward ongoing product development, product cost reduction projects and facilities rationalization.

Industrial Relations

Other than our Brazilian operations which experienced a short strike as part of a community pattern, industrial relations throughout Massey-Ferguson were stable in 1978.

In the United Kingdom, wage and salary negotiations were completed without significant disruption and settlements were within government guidelines. Agreements negotiated in 1977 in North America continue through 1979.

At most locations, major reductions in the workforce became necessary in 1978. These reductions were achieved through constructive involvement of unions and relevant government bodies.

Segmented Reporting

In accordance with recent North American accounting developments and requirements of the U.S. Securities and Exchange Commission, the Company is presenting segmented results for the first time. The specified information is provided for business segments and for geographic segments. The segments have been selected by management as most reflective of the Company's operations. In the case of geographic segments, "Europe and Other" is treated as a single segment since Europe is the supply source for most of our export sales. In each statement, sales to third parties are shown separately from inter-segment sales. The inter-segment sales and profit thereon are eliminated to arrive at consolidated sales. In the case of some segments, certain arbitrary allocations are necessary to arrive at costs for goods produced in common facilities.

The operating profit figures do not include interest charges, corporate charges, exchange adjustments, nor provision for reorganization expense. In examining the operating profits by segment it should be noted that net interest expenses, which are not included in operating results, were $186.6 million and exceeded total operating profit by $45.9 million.

The geographic segmented sales shown in Note 9 on page 30 differ in some cases from the sales statistics shown on page 36 since the segmented results are by production source rather than ultimate market.

Farm and Industrial Machinery

World Agricultural Outlook

As a result of unusually favourable weather conditions in 1978, world production of wheat and feed grains is currently estimated at 1,155 million metric tons, about seven per cent above 1977 and three per cent greater than the previous record year of 1976. Milled rice production is also expected to exceed the record 1977 year by about three per cent.

World consumption of wheat and feed grains, which was limited by supply during the period 1974-75, increased sharply in 1976, a record production year. In spite of a higher level of consumption in both 1976 and 1977, carry-over stocks in those years increased by 43 million metric tons. The estimates of production and consumption for 1978 indicate that carry-over stocks at the end of the 1978-79 crop year will increase to a total of 195 million metric tons.

In terms of world trade, grain shipments from the two leading export countries, the United States and Canada, are expected to remain strong in 1979 and should be at or near the 1978 crop-year level. The relative weakness of the United States' and Canadian currencies will encourage purchasing by the major importing countries.

The 1978 record crop of wheat and feed grains will provide what may well be a required buffer of carry-over stocks to meet 1979 requirements. Government programs in the United States are likely to keep acreage in 1979 at about the 1978 level. Consequently, even with near-normal weather conditions during 1979 in the United States and the U.S.S.R. (the two largest grain growing areas), requirements could deplete stocks to a level of 165 million metric tons. This represents less than two months' consumption on a world-wide basis.

World-Wide Sales and Production

The Company's sales of farm and industrial machinery in 1978 were $2,215.6 million, an increase of $21.9 million or 1.0 per cent from 1977.

World-wide production of Massey-Ferguson agricultural and industrial tractors was 146,700 units, or 20.4 per cent below 1977, down primarily in the United Kingdom, France, North America and Argentina. Of the total, production of industrial tractors, which are adaptations of farm tractors, was 10,000 units in 1978, or 12.3 per cent below 1977.

Production of combines was 11,600 units, down 10.9 per cent from 1977. The Company's largest combine factory in Brantford, Ontario, produced 7,400 units.

Farm Machinery

North American Operations

Total production of wheat and feed grains in North America was at a record level. A decline in wheat production in the United States was more than offset by an increase in corn production.

Farm commodity prices were at favourable levels due to government support programs for wheat and feed grains in the United States and a sharp increase in livestock prices. As a result, farm cash receipts were at record levels exceeding $100 billion in the United States and $11.5 billion in Canada.

The North American farm machinery market responded favourably to higher commodity prices and farm income during 1978, although most of the improvement in the farm economy came in the second half of the year. In view of the uncertainty of the market outlook in the early part of 1978, the Company decided to reduce its current asset position by cutting factory schedules to bring down work-in-process inventories. Because of the long lead time required to readjust production schedules, the Company was unable to take full advantage of improved demand in the second half of the year. In the fourth quarter, dealer inventory dropped to a point where it became a major constraint on retail sales. At October 31, 1978, dealers' floor-plan inventories were $38 million below the previous year and represented in physical terms a level too low for effective retail selling.

Massey-Ferguson added a number of new models to its line of large tractors during 1978. The over-100 horsepower, two-wheel-drive tractor line, of which two models, of 190 horsepower and of 160 horsepower were launched in 1977, was expanded by three models in the 100 to 140 horsepower range. In the four-wheel-drive category, two new models of 225 and 325 horsepower will be available in 1979. With these additions, Massey-Ferguson's line of large two- and four-wheel-drive tractors is fully competitive in the North American market in the 100 to 325 horsepower range.

The Company introduced three new combines in 1978 – a pull-type model for the swathed grain areas of Western Canada and two self-propelled models for the corn growing areas of the United States.

Two new mower conditioners were added to the hay and forage line to support the strong position that Massey-Ferguson holds in this segment of the market. A new cultivator, ranging in size from 9½ to 42½ feet, was introduced in mounted and pull-type versions.

European Operations

The nine countries of the European Economic Community (EEC) represent about 80 per cent of the population and farm production of Europe, with nine markets outside the EEC accounting for the remainder.

Under the EEC agricultural policy, most farm products are protected by guaranteed minimum prices and by a program of government purchase of surpluses. The guaranteed minimum prices are generally considerably above world prices, a situation which supports a relatively high level of farm income but requires large subsidies to cover exports of surpluses.

The growing surpluses of several important products (milk,


2640
MASSEY FERGUSON
MF

butter and sugar) have led the EEC to consider measures for reducing production. In 1978, the EEC awarded only modest increases in guaranteed prices; the 1979 Price Review may result in little or no increases. Other measures being considered to reduce agricultural production will introduce an element of uncertainty for farm income in 1979.

Following two years of high farm machinery sales, Europe experienced a small decline in demand in 1978. Excess manufacturing capacity resulted in intensified competitive activity which reduced profit margins. Dealers' inventories remained at a high level throughout the year.

For Massey-Ferguson, the effect of declining industry demand varied from country to country but over-all the Company retained its position of market leader in Europe by a considerable margin.

United Kingdom

The United Kingdom's farm economy remained stable with the livestock and dairy sectors being especially strong. In spite of late and somewhat uncertain harvest conditions, grain yields and quality were good.

Changes in taxation tended to favour long-term investment in fixed farm facilities rather than machinery and the farm machinery market returned to more normal levels following two years of above-average demand.

Industry sales of farm machinery showed a marked reduction from 1977, with tractor sales down 15 per cent. Massey-Ferguson, however, recovered from the strike-related supply constraints of 1977 and regained five percentage points in its share of the tractor market. In the combine sector, Massey-Ferguson held its share of the market.

France

Favourable weather conditions resulted in an estimated five per cent increase in farm output with grain production at a record level. Farm income in 1978 was slightly above 1977.

In 1978, industry tractor sales remained below the high levels of the 1970-76 period, but were above 1977 and are likely to continue the upward trend in 1979. Mainly because of problems related to the introduction of new products, Massey-Ferguson's share of the tractor market was down slightly in 1977.

The combine market recovered from the low levels of 1976 and 1977 but in the face of strong competitive activity the French company's market share declined marginally in 1978.

West Germany

Despite a record grain harvest, which exceeded the six-year average by 13 per cent, some sectors of agriculture showed no improvement in farm net income while others declined.

Germany experienced a deterioration in its exports of farm machinery and the resulting excess manufacturing capacity led to keen competitive activity. Industry tractor sales remained at about the 1977 level, but Massey-Ferguson's market share declined slightly in 1978 mainly due to delays in the introduction of new products.

The MF 2640, shown here with four-wheel drive, is the first of a series of new, higher horsepower tractors to be produced at the Beauvais plant in France. In Europe, where large tractors are growing in popularity, the MF 2640 is expected to meet with the same customer approval as similar North American tractors have received in the past two years. The MF 2640, with 104 hp, provides a full range of features such as 16-speed synchronized transmission with powershift and a choice of two-wheel or four-wheel drive. The MF 2640 and a larger model, the MF 2680 with 120 hp, will be available throughout Europe in 1979.

In contrast, industry sales of combines increased sharply after two flat years.

Italy

The decline in farm machinery demand which occurred in the fourth quarter of 1977 continued through 1978 due to a shortage of farm credits and poor harvesting conditions. In spite of an unfavourable industry situation, Massey-Ferguson was able to improve its share of the tractor market achieving sales gains for imported Massey-Ferguson tractors and its locally produced line of Landini tractors. Sales of combines and balers, however, were down compared to 1977.

Production of Landini tractors was a record 14,500 units of which one-quarter was exported. The new line of Landini two- and four-wheel-drive tractors has a range of 47 to 132 horsepower.

Other European Markets

Elsewhere in Europe, farm output increased slightly but farm income generally remained static because of commodity surpluses. Industry tractor sales returned to a more normal level of 95,000 units in 1978 compared with 110,600 units in the record year of 1977. Massey-Ferguson's market share in 1978 was much improved compared with 1977, when supply was constrained by a strike at the Banner Lane tractor plant in the United Kingdom.

Industry sales of combines fell in 1977 and 1978 following two years of high demand stimulated by investment incentives.

Southern Hemisphere Operations

Brazil

Agricultural production in 1978 suffered as a result of prolonged drought which reduced the value of grain crops by an estimated $3.0 billion and seriously affected farm income.

In addition, credit support for the agricultural sector continued to be restricted throughout most of 1978. This restriction and the lower level of farm income reduced industry sales of tractors to 41,000, approximately 9,000 less than in 1977 and 34 per cent below the peak year of 1976.

Industry sales of combines were also affected and, at 3,800 units, are forecasted to be 40 per cent below 1977.

Delays in introducing the new MF 296 tractor of 102 horsepower and the new MF 3640 combine contributed to a small decline in market share but the favourable acceptance of these products in 1978 is expected to result in improved market penetration in 1979.

Argentina

A decline in agricultural prices and the introduction of tight monetary and credit controls seriously affected farm machinery demand in the first half of 1978. Although some recovery occurred subsequently, industry tractor sales were down 70 per cent for the year. In response to this sudden change in demand, Massey-Ferguson cut back and subsequently ceased production of tractors on a temporary basis in order to reduce operating expenses and current assets to the lowest possible level.

Mexico

With population growth at an annual rate of 3.2 per cent, the Mexican Government in 1978 intensified its programs to increase food production. As a result, demand for farm machinery rose sharply and the industry responded by an increase in tractor production of 30 per cent. Massey-Fergu-


MF
MF
MASSEY FERGUSON

son's production of tractors was up 50 per cent and its market share increased.

Australia

Farm income reached a low level in 1977 and 1978 because of a decline in world commodity prices and drought conditions in some of the important agricultural areas of Australia. Depressed farm income in 1978 reduced industry sales of farm machinery to the lowest level since 1970.

Industry sales of tractors were strong prior to June 30 because of a 40 per cent government investment allowance. With the discontinuance of the allowance, however, demand dropped to a more normal level and for the full year sales were unchanged from 1977.

South Africa

Crop production increased by six per cent in 1978 under generally favourable weather conditions and farm gross income was up eight per cent. A continuing import surcharge on tractors and the introduction of a general sales tax discouraged farmer investment in new machinery, and industry sales of tractors dropped by 18 per cent.

With the introduction of new tractor models in June, the South African company regained leadership in the tractor market.

Massey-Ferguson also remained a leader in the combine market, although industry sales declined as a result of the poor wheat crop.

World Export Operations

Asian, African & Middle Eastern Export Markets

More than a hundred countries, many of which are in the very early stages of farm mechanization, comprise the export markets of Asia, Africa and the Middle East. Agriculture is the largest industry in these markets and the annual demand for tractors (excluding Japan) is approximately 136,000 units.

Massey-Ferguson's tractor sales were 28,000 units in 1978, a reduction of 10 per cent from 1977, principally reflecting decline in industry sales in a few large markets such as Turkey. Over the past five years, however, industry sales have nearly doubled and Massey-Ferguson's sales have increased by 50 per cent.

Most of these markets are capable of considerable growth in view of their low level of mechanization. For example, there are two tractors per 1,000 hectares in Libya and one per 1,000 hectares in the Sudan, compared with 72 tractors per 1,000 hectares in France. Although agriculture in developing countries relies heavily on human labour, mechanization of some kind is going ahead almost everywhere. Starting from a low base, the number of tractors per 1,000 hectares doubled in many developing countries during the past decade and seems likely to double again over the next decade.

Japan

Japan is an exceptional market to which Massey-Ferguson has been able to export despite a domestic industry that has developed higher horsepower tractors. In 1978, Massey-Ferguson doubled its tractor exports to more than 3,000 units.

In the tractor market below 40 horsepower, which is dominated by local manufacturers, domestic demand remains stagnant and marketing emphasis has shifted to exports. The Massey-Ferguson line of tractors in a range of 15 to 28 horsepower is manufactured in Japan and is being exported to 25 countries.

The MF 750 combine harvester (shown here) is Massey-Ferguson's largest-selling combine in North America and finds ready acceptance in Europe, Australia, South Africa and Mexico. It is shown with Massey-Ferguson's new floating cutter-bar table which allows it to follow ground contour independent of the combine's level. A new operator's cab also is featured with improved insulation to reduce heat, noise and dust together with a 14-channel electronic monitoring system covering all key controls. The MF 760, a larger model, is the largest conventional combine in volume production in North America.

Other Export Markets

Restrictions on imports into a few large markets, particularly Turkey and Pakistan, could have reduced Massey-Ferguson's total export sales in 1978. However, these exports were equal to 1977 largely due to new business in markets where Massey-Ferguson previously has not been a large supplier; for example in Egypt, Iraq and Saudi Arabia.

During the past year and a half, orders were received from Saudi Arabia for more than $20 million worth of tractors and implements. These are the largest orders in many years of trading with that country and reflect Saudi Arabia's drive to achieve greater agricultural production.

In the Far East, Massey-Ferguson's tractor unit sales were 25 per cent above 1977 with notable increases in Sri Lanka, where large orders were obtained after a number of years in which imports had been restricted, and also in Malaysia and Indonesia. Massey-Ferguson's Thailand distributor is now the market leader in retail tractor sales.

China remains the largest potential market in the Far East for farm machinery. During 1978, Massey-Ferguson representatives participated in trade delegations to China from Canada, the United Kingdom and Australia. Toward the end of the year, Massey-Ferguson exhibited a number of products, including a high-horsepower tractor and a large combine, at the International Peking Agricultural Machinery Exhibition and presented technical papers to the conference associated with the Exhibition. Following this, a technical mission from the Company began discussions with representatives of the Chinese Government about various aspects of China's plans for increased mechanization of agriculture.

Assembly/Manufacturing Projects

There is a growing trend for governments of developing countries to try to link their agricultural growth and industrial development through local assembly or manufacture of farm machinery and diesel engines. Massey-Ferguson is in discussions with a number of such countries, at government or quasi-government levels. Countries which have already implemented such projects–Iran, Turkey and Pakistan–represent significant markets for Massey-Ferguson components as well as wholegoods. An indicator of increased demand for local assembly is the ratio of tractor component shipments to total sales in these markets. This ratio rose from 27 per cent in 1970 to 36 per cent in 1978.

Iran

Progress continued to be made on production of tractors under licence at the Tabriz factory of the Iran Tractor Manufacturing Company and assembly of units incorporating locally built components began in the latter part of the year. Orders have been received for shipment in 1979 of $60 million worth of components to support the local manufacturing program.

Retail sales of Massey-Ferguson tractors in 1978 were 2,700 units, 69 per cent above 1977. Exports of tractors to Iran increased from 1,260 units in 1977 to 2,100 in 1978.


MF
50B

Pakistan
Assembly of Massey-Ferguson tractors at the government-owned Pakistan Tractors Corporation factory in Lahore improved during 1978.

From its peak in 1977, the retail tractor market returned to a more normal level in 1978. Massey-Ferguson maintained its market share of 30 per cent.

Turkey
Foreign exchange constraints held Massey-Ferguson tractor imports to less than half the high volumes of 1976 and 1977. Shipments of 4,000 completely knocked-down units to support local assembly operations was at the lowest level since 1970.

Credits established by the Brazilian Government enabled Massey-Ferguson's Brazilian company to ship 2,550 built-up tractors to Turkey in 1978. The Company's share of the Turkish tractor market improved in 1978 and retail demand remains buoyant; however, shipments to Turkey in 1979 will be dependent upon the availability of foreign exchange.

Poland
Progress continued on expansion of the Ursus factory, under contract, although at a somewhat reduced pace due to a slowdown in the national economy. The first locally built tractors, based on components imported from the United Kingdom, were completed during 1978.

Projects under Development
In Libya, a contract to start factory construction was signed during 1978 by the Libyan Tractor Company and assembly of tractors under licence is expected to begin in 1979.

The Sudanese Government has chosen Massey-Ferguson as partner in a manufacturing project to build a plant with an annual capacity of 4,000 tractors.

Industrial Machinery

Industrial machinery is a generic term which describes industrial tractors, tractor loaders and tractor-backhoe-loaders. All of this equipment has a high degree of interchangeability of drive-train parts with farm tractors. Industrial machinery is used in such applications as home building, landscaping, property maintenance and materials handling.

The Company's industrial machinery line, which is being strengthened with new and upgraded products, is marketed world-wide through a combination of Massey-Ferguson farm machinery dealers (largely in North America), construction machinery distributors in Europe and selected markets, and specialized industrial machinery dealers.

North American Operations
The industrial machinery market in the United States was 14 per cent higher than 1977, a reflection of the continuing high rate of housing starts which were at an annual rate of approximately two million through September despite high mortgage rates and prices. In Canada, however, a weak investment climate throughout the year held down housing starts and, consequently, sales of industrial machinery.

Massey-Ferguson's sales of industrial machinery were ahead of 1977 for the first two quarters, but softened during the second half. For the full year, sales were 20 per cent above 1977.

A notable product introduction in North America in 1978 was the MF 60 tractor-backhoe-loader, a fully integrated unit designed to provide heavy-duty, continuous-use capability. It incorporates an advanced variable flow and pressure hydraulic system which permits significant fuel savings and is the first machine with this system to be offered by any manufacturer.

European Operations
In Europe, customers for industrial machinery are usually small or medium-sized building contractors and municipal authorities who use the machines on small construction sites and for maintenance work. Larger contractors often use numerous industrial tractors and tractor-backhoe-loaders for general duties. In the United Kingdom, there is an extensive machine rental activity which meets the needs of contractors for machines and operators.

Demand for industrial machinery in most European markets was strong in 1978. Our United Kingdom factories were unable to meet demand for their production in the early part of 1978. However, in the latter half of the year production capacity was increased and Massey-Ferguson achieved its traditional levels of penetration in most markets, largely due to good acceptance of the MF 50B tractor-backhoe-loader.

In the United Kingdom, which is the largest market in Europe for industrial machinery, building activity improved markedly in 1978 and industrial machinery sales recovered under strongly competitive conditions.

Asia and Africa
Sales of industrial machines in the export markets of Asia and Africa remained relatively low reflecting their predominantly rural economies. There were, however, substantial exports to Iran, Libya and Saudi Arabia; other markets in this region are expected to expand as urbanization and industrialization projects get under way.

The MF 50B tractor-backhoe-loader shown here is the most popular model in the Company's line of industrial machinery accounting for approximately one quarter of total unit sales. It is produced at factories in Manchester and Knowsley, England, and is marketed throughout Europe and in certain Southern Hemisphere and World Export markets. The MF 50B has a 69 hp four-cylinder Perkins diesel engine, a one-cubic-yard loader and a 14-foot backhoe digging depth. The safety cab includes a heater, lights and soundproofing for improved operator comfort. A companion loader model without a backhoe also is available.


MF HANOMAG
33C
HANOMAG

Construction Machinery

The world-wide market for the types of equipment in the Company's construction machinery range is estimated to be $6 billion. It is a highly competitive market and is dominated by about ten manufacturers of which Massey-Ferguson is one. These manufacturers shared in the boom market of 1970 to 1974 during which Massey-Ferguson's construction machinery sales doubled.

Acquisition of Hanomag in West Germany at the end of 1974 took place just prior to the recessionary period which began in North America in 1975 and continued through 1977, with the exception of certain markets in the Middle East.

In 1978 there were signs in several major European markets of some resurgence in demand. This coincided with the Company's action to centralize its marketing and sales organization and to concentrate its attention on the European market and selected markets elsewhere. The Company's position also was assisted by its strategy of rationalizing production and developing its product range as well as by a strong distribution network with the specialized marketing and service skills required for the construction machinery business.

Sales of construction machinery in 1978 increased by 17.4 per cent to $263.9 million with a net loss of $49 million for the year. This loss differs from the segmented accounting results reported in Note 9 (page 30) due to interest and exchange allocations. Actions taken to restructure manufacturing and concentrate sales in Europe and selected export markets are expected to reduce the operating loss significantly in 1979 and achieve a break-even or better position in 1980. Sales of heavy construction machinery to distributors in North America have been discontinued.

The Company's construction machinery line, enlarged by the addition of Hanomag products in 1974, has developed into one of the industry's most rugged and wide-ranging lines of wheel loaders, crawlers and excavators. Upgrading of all these products was completed during 1978.

In the wheel loader range, the MF 33C articulated model replaced an already successful machine and the Company demonstrated its leadership in this market, notably in Germany.

Massey-Ferguson attained an eight per cent share of the highly competitive hydraulic excavator market in Germany. Sales were aided by the introduction of the MF 450 and MF 550 models, both of which have had an excellent reception throughout Europe.

In the more stable crawler market, the Company introduced the MF D400C and MF 500C, both featuring full powershift transmission. The MF D400C of 87 horsepower has a direct-drive option for use in agricultural and forestry work, and is particularly suitable for use in developing countries.

The Massey-Ferguson range of 26 construction machines now covers the most popular sizes of wheel loaders, crawler loaders and dozers, and excavators providing distributors with a much enhanced volume potential.

With the introduction of the MF 33C in 1978, the MF Hanomag line of articulated wheel loaders now extends from 97 to 258 hp to meet the needs of this expanding sector of the construction machinery market. The new model combines excellent design with improved operator comfort and a powershift transmission designed and built for wheel-loader applications. The combination of four-wheel drive with axles designed to eliminate wheel slip provides superior traction in difficult ground conditions. Also featured is a "two-stage demand" hydraulic system, allowing full digging power and full driving power at the same time.

European Operations

Industry demand in 1978 for construction machinery varied widely in the major markets of Europe. Over-all, activity was flat because of restrictive economic policies. In Germany and the United Kingdom there was significant growth, and Italy remained a substantial market.

Massey-Ferguson's total retail sales by units, were 12 per cent greater than 1977 and its market share was improved. Significant factors in this performance were the introduction of new models and the effective efforts of our distributors.

Germany was the most buoyant market for construction machinery in Europe because of government support of the capital goods sector. Massey-Ferguson increased its unit sales by 50 per cent from 1977 and its market share by more than two percentage points.

In the United Kingdom, the market improved by 10 per cent and Massey-Ferguson increased its retail sales by 16 per cent. A promising new development was the growth of the United Kingdom compactor market in which Massey-Ferguson holds a 70 per cent market share. These machines compact waste and refuse in landfilling operations and are in increasing demand due to pressure for more efficient disposal of waste.

Export Markets

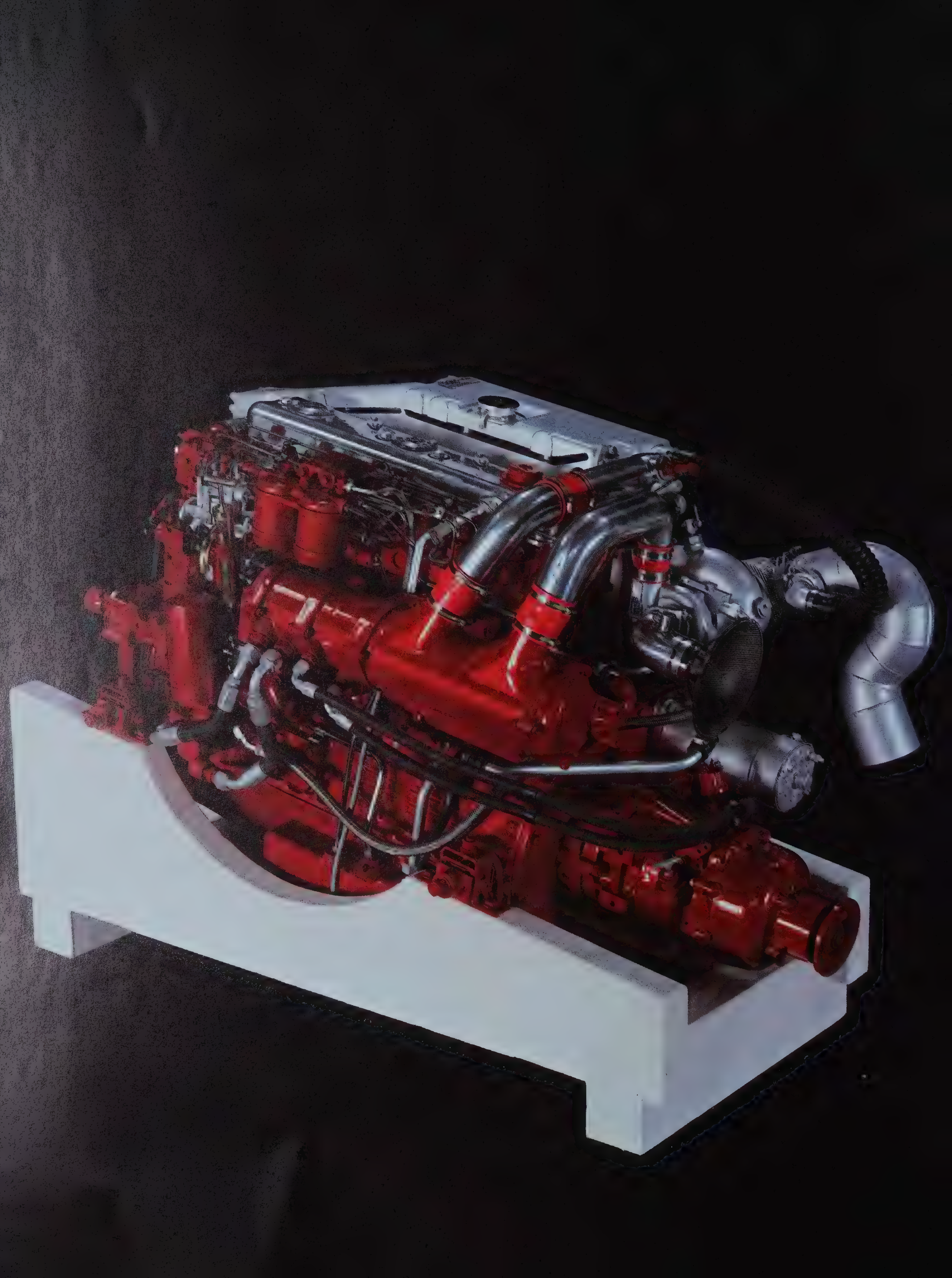
In export markets outside Europe, Massey-Ferguson construction machines continued to sell well, although the height of the boom in the oil producing countries was past.

In Africa, the economic environment was generally flat and there was a decline in demand. The Company's distributors in Kenya, Ghana and Tunisia, however, achieved record sales.

Africa and Asia have a vast potential for food production and there are substantial developments requiring construction machinery to prepare land for increased domestic food production to replace imports. In addition, there are urbanization and industrialization projects which also require construction machinery and Massey-Ferguson machines are being used in such projects as the new federal capital in northern Nigeria.

Outlook

For the immediate future, the objectives of the Construction Machinery Operations are to achieve a break-even position by 1980 and to reduce assets and use them more effectively. Significant sales growth is being vigorously pursued with the support of a highly effective distribution system in Europe and selected export markets.



Engines

World-Wide Sales and Production

Although requirements for diesel engines for agricultural applications declined during 1978, demand for other applications, particularly industrial machinery, showed a modest growth which is expected to continue through 1979. By 1980, stronger demand is expected for all applications.

During 1978, Perkins continued to develop and strengthen its world-wide distribution network for sales, service and parts to meet local customer requirements. Exclusive franchise distributors were launched in Sri Lanka, the Philippines and Paraguay.

Sales of diesel engines in 1978 were $446.0 million, an increase of 15.3 per cent over 1977. World-wide production by Perkins, its Associates and licensees was 544,700 diesel engines, 4.5 per cent less than in 1977. Perkins built 286,700 units, compared with 319,400 units in 1977, and its Associates and licensees produced 258,000 Perkins engines, compared with 251,200 in 1977.

United Kingdom
Because of reduced requirements of the farm machinery industry, including the effect of production cuts and a major inventory adjustment by Massey-Ferguson, engine build declined to 200,000 units compared to 228,200 in 1977. Shipment of engine component kits to support assembly operations outside the United Kingdom were down from 155,800 in 1977 to 128,700 in 1978. The reduction was largely the result of lower demand in Argentina because of credit controls and in Turkey because of a balance of payments problem.

Capital investment by Perkins during the year was primarily for machine tools of advanced technology to improve product quality and increase productivity objectives. Investments also were made for additional test facilities with individual computerized test cells to provide improved control of the test cycle for production engines.

Brazil
During 1978, demand for diesel engines was affected by continuing weakness in the agricultural sector due to drought and reduced availability of farm credit; a decline of 18 per cent in production of commercial vehicles because of credit restrictions; and a slackening of demand for diesel engines as replacements for gasoline engines in truck applications. As a result of these economic and market factors, production of Perkins engines was 13.8 per cent below 1977.

The new "Range 4" marine diesel engines introduced by Perkins in 1978 are engineered from long-established and proven designs while taking advantage of the latest technology. Aimed at the pleasure boat and light commercial working vessel markets, all Range 4 engines have six cylinders with direct fuel injection to provide economy, extended cruising range and ease of starting. The results of Perkins research on exhaust emissions and noise levels have been used for cleaner, quieter power. By enclosing several components in a single aluminum casting, some pipes and joints are eliminated reducing leakage and improving durability.

Perkins was able to hold its expenditure and asset levels to those appropriate to reduced production volume, so that borrowings and interest expense were reduced significantly.

Exports of assembled engines, completely knocked-down sets and machined components were twice those of 1977, reflecting export incentives and the competitive cost structure now achievable within Brazil.

During the year, a new distribution policy strengthened the dealer network and increased the availability of spare parts and service for the 400,000 Perkins engines operating in Brazil.

Toward year end, high volume production began of an 80 horsepower, four-cylinder 236-cubic-inch engine for application in pick-up trucks.

West Germany
Production at Hanover was 12,850 finished engines and 13,200 machined engine blocks during 1978.

In 1978, Perkins completed its contract to supply Volkswagen with a four-cylinder 165-cubic-inch engine from the Hanover facility for its diesel-powered light van. Volkswagen has been able to develop a diesel engine based on a gasoline engine which it regards as suitable for cars and vans. This diesel engine has now replaced the Perkins unit. Volkswagen will continue to fit the Perkins engine in light vans for export markets which require a right-hand-drive vehicle.

Although manufacturers in several other countries are testing the four-cylinder 165-cubic-inch engine, new orders to replace the Volkswagen contract have not been received in sufficient volume to permit efficient operation of the Hanover engine plant. Consequently, production of Perkins engines in Hanover was discontinued in December 1978.

United States
Production of four-cylinder 236-cubic-inch and six-cylinder 354-cubic-inch engines at the Canton, Ohio plant reached 22,000 units, an increase of 9.5 per cent over 1977.

Total sales of engines, including three-, four- and six-cylinder units imported from the United Kingdom, increased by about 20 per cent with the marine and industrial equipment applications showing greatest growth.

France
Production of the 96 horsepower, four-cylinder 310-cubic-inch engine for agricultural applications was 4,700 units in 1978. An upgraded version of the engine with approximately 10 per cent more horsepower is being supplied exclusively for Massey-Ferguson products.

Associates and Licensees

Spain
As a result of a recession in the Spanish market, engine production by Motor Iberica S.A. was 57,700 units in 1978, a

decrease of 8.4 per cent from 1977. The decrease also reflected Volkswagen's reduced demand for four-cylinder 165-cubic-inch engines for which Motor Iberica supplied blocks and heads to the Perkins facility at Hanover.

Iran
Initial assembly of three- and four-cylinder engines has been deferred until 1979 because of delays in completing the factory and installing services.

Sales of $3.5 million were achieved in 1978. Orders with a value of $15 million have been received for completely knocked-down sets and for assembled engines to be delivered in 1979.

Yugoslavia
Following 25 years of collaboration between Perkins and Industrija Motora Rakovica (IMR), negotiations are underway for a new technical aid agreement to update the three-, four- and six-cylinder engines which IMR has been manufacturing under a previous agreement. IMR's annual capacity is now 70,000 engines and is expected to rise to 100,000 in the early 1980's.

Korea
Under the licence agreement with Hyundai Motor Company covering two sizes of four-cylinder engines and a turbocharged six-cylinder engine, capacity was planned for 24,000 units a year by 1979. By the end of fiscal 1978, production was at a rate of 1,900 units per month and plans have now been completed to expand annual capacity to 30,000 units during 1979.

Poland
Assembly of three-cylinder engines at the Ursus tractor plant began during the second half of 1978 using Perkins components from the United Kingdom. This activity will continue in 1979 with an increasing volume of locally manufactured components. Installation of machining lines for blocks, cylinder heads and bearing caps for three-cylinder engines has been completed and the remaining major machining lines are being installed. Assembly of the four-cylinder engine is now scheduled for 1979.

At the Andrychow truck plant, assembly of six-cylinder engines using component kits imported from the United Kingdom is scheduled to begin in 1980.

India
A new licence agreement has been completed with Simpson & Co. Ltd. of Madras, covering the manufacture of a three-cylinder 152-cubic-inch engine for agricultural applications.

Peru
Despite adverse economic conditions in Peru, the joint venture company of Perkins, Volvo and the Peruvian Government began production late in 1977 and built 1,900 engines in 1978, of which 1,100 were Perkins units. In accordance with Andean Group planning, the Peruvian company will eventually become the source of cylinder blocks and heads to support engine assembly in other Andean Group countries (Bolivia, Colombia, Ecuador and Venezuela).

Argentina
During 1978, government measures to reduce inflation had a major effect on retail sales, and all market sectors in Argentina declined. By late 1978, the economy had stabilized but no major recovery is expected in the short term.

Production of Perkins engines was affected by the depressed economy and declined by 41.9 per cent to 20,000 in 1978. Progress continues on the introduction of a new version of the six-cylinder 354-cubic-inch engine and production of V8 engines is scheduled for mid-1979.

Mexico
Demand for engines showed significant recovery in 1978 and production of Perkins engines increased by 46.2 per cent to 21,600 units. Investment programs have been approved to introduce the latest version of the six-cylinder 354-cubic-inch engine, including a turbocharged model, by early 1981.

New Engines

A new family of marine engines for application in pleasure boats, light working vessels and on-board power generator sets – the Range 4 series of six-cylinder 354-cubic-inch engines – was launched world-wide late in fiscal 1978. The Range 4 engines, in models of 98 to 185 horsepower, provide improved fuel economy and greater durability.

A four-cylinder 203-cubic-inch engine designed mainly for forklift trucks and other industrial machinery applications, went into production during 1978. The new engine incorporates the Perkins "Squish Lip" combustion system which reduces noise, smoke and emission levels. This engine is the first of three new "clean" engines with the "Squish Lip" system in a range of 40 to 80 horsepower, designed for applications where environmental considerations are of primary importance (mainly forklift trucks). The second engine of this type, a three-cylinder 152-cubic-inch model, is scheduled for production in late 1979 and the third, a four-cylinder 236-cubic-inch model, by mid-1981.

These "clean" engines have been designed mainly for the forklift truck market in which Perkins has a 45 per cent share. Other industrial applications include compressors, generator sets, construction equipment, refrigerator plants and irrigation pumps.

Research and Development – Light-Duty Diesel Engines

Environmental legislation continues to have a major influence on the research and development activities of the Engines Group. The most stringent legislative requirements are in the United States where an engine emissions level in automotive applications of 0.5 gram per mile is proposed for the 1981 model year. Perkins' research efforts are being directed mainly to the achievement of low levels of "particulates" emissions, i.e. smoke, hydrocarbons and nitrous oxide, to ensure that future products are acceptable environmentally.

An interesting development research activity in which Perkins has been involved with major car companies in Europe and North America, is an appraisal of dieselized versions of existing gasoline engines. The Perkins approach to dieselizing gasoline engines provides optimum power and fuel economy and utilizes existing production facilities to minimize capital investment. For the next five years, this approach could provide a power unit for passenger cars and light commercial vehicles which would be capable of meeting the legislative projections for fuel economy and emission levels.

Before 1985, however, government and market pressures will require a more advanced type of diesel engine to achieve a higher level of fuel economy and to meet projected environmental standards of noise, odour and particulates emissions. Perkins' research activities have taken account of these future requirements, and the Engines Group believes that its product development program meets the market requirements for this "second generation" of light-duty diesel engines within the projected time period of the early to mid 1980's.

Consolidated Statements of Income and Retained Earnings

Massey-Ferguson Limited (Incorporated under the Laws of Canada)
Years ended October 31, 1978 and 1977

(Thousands of U.S. Dollars)		1978	1977
Income	**Net Sales** *(Notes 1(c) and 9)*	$2,925,494	$2,805,262
	Costs and Expenses:		
	Cost of goods sold	2,371,184	2,209,708
	Marketing, general and administrative expenses	371,974	332,418
	Engineering and product development expenses *(Note 1 (f))*	65,971	67,457
	Interest on long-term debt	78,667	56,388
	Other interest (net) *(Note 11 (d))*	107,966	94,593
	Exchange adjustments	90,913	22,299
	Minority interest	(816)	2,112
	Miscellaneous income	(10,536)	(10,283)
		3,075,323	2,774,692
	(Loss) Profit before Reorganization Expense, Income Taxes and Items Shown Below	(149,829)	30,570
	Provision for Reorganization Expense (*Note 10*)	116,000	
	(Loss) Profit before Income Taxes and Items Shown Below	(265,829)	30,570
	Income taxes *(Notes 1(h) and 4)*	11,763	11,387
	(Loss) Profit before Items Shown Below	(277,592)	19,183
	Equity in net income of finance subsidiaries (*Note 1(a)*)	16,287	8,487
	Equity in net income of Associate Companies (*Note 1(d)*)	4,596	5,050
	Net (Loss) Income for the Year	$ (256,709)	$ 32,720
	(Loss) Income per Common Share (*in U.S. Dollars*) (After Cumulative Dividends on Preferred Shares)	$ (14.53)	$ 1.26
Retained Earnings	**Balance at Beginning of Year**	$ 529,577	$ 525,997
	Net (loss) income for the year	(256,709)	32,720
	Dividends (*Note 6*)	(6,370)	(29,140)
	Surplus on purchase of preferred shares *(Note 7)*	1,345	
	Balance at End of Year	$ 267,843	$ 529,577

(See accompanying Notes to Consolidated Financial Statements)

Consolidated Balance Sheets

Massey-Ferguson Limited
October 31, 1978 and 1977

(*Thousands of U.S. Dollars*)		1978	1977
Assets	**Current Assets:**		
	Cash	**$ 23,438**	$ 12,575
	Receivables *(Note 2)*	**355,557**	328,312
	Products sold to North American dealers under deferred floor plan arrangements *(Note 1(c))*	**175,685**	214,110
	Inventories, valued at the lower of cost or net realizable value—		
	Raw materials and work in process	**538,881**	584,088
	Finished goods	**544,941**	551,862
	Total Company inventories	**1,083,822**	1,135,950
	Prepaid expenses and other current assets *(Note 4)*	**63,830**	80,797
	Total Current Assets	**1,702,332**	1,771,744
	Investments:		
	Finance subsidiaries—		
	Shares, at equity in net assets *(Note 1(a))*	**124,114**	106,451
	Long-term advances	**8,072**	
	Associate Companies *(Note 1(d))*	**69,770**	76,410
	Other	**11,354**	12,093
		213,310	194,954
	Fixed Assets, at cost *(Notes 1(e) and 3)*	**1,098,687**	1,044,680
	Less accumulated depreciation and amortization	**496,445**	450,596
		602,242	594,084
	Other Assets and Deferred Charges *(Note 11(e))*	**29,301**	33,390
		$2,547,185	$2,594,172

On behalf of the Board:
Conrad M. Black, *Director*
Victor A. Rice, *Director*

		1978	1977
Liabilities	**Current Liabilities:**		
	Bank borrowings	**$ 362,270**	$ 249,238
	Current portion of long-term debt	**115,009**	95,821
	Accounts payable and accrued charges	**734,821**	677,021
	Income, sales and other taxes payable (*Note 4*)	**43,867**	46,586
	Advance payments from customers	**16,101**	6,429
	Total Current Liabilities	**1,272,068**	1,075,095
	Deferred Income Taxes *(Note 4)*	**64,368**	76,639
	Long-Term Debt *(Note 8)*:		
	Bonds, debentures, notes and loans	**619,809**	565,211
	Less instalments maturing within one year	**115,009**	95,821
		504,800	469,390
	Convertible subordinated notes	**147,000**	147,000
		651,800	616,390
	Minority Interest in Subsidiaries	**18,428**	19,447
Shareholders' Equity	**Shareholders' Equity:**		
	Share capital *(Note 7)*		
	Preferred Shares	**95,790**	100,136
	Common Shares	**176,888**	176,888
	Retained earnings (including retained earnings of unconsolidated finance subsidiaries: October 31, 1978—$70,854; October 31, 1977 – $54,648) *(Note 6)*	**267,843**	529,577
		540,521	806,601
		$2,547,185	$2,594,172

(See accompanying Notes to Consolidated Financial Statements)

Consolidated Statements of Changes in Financial Position

Massey-Ferguson Limited
Years ended October 31, 1978 and 1977

(Thousands of U.S. Dollars)		1978	1977
Source of Funds	Funds from Operations (*Note 11 (a)*)		$ 94,833
	Proceeds from long-term debt issues	**$168,989**	226,131
	Proceeds on disposal of fixed assets	**11,340**	6,227
	Decrease (increase) in other assets and deferred charges	**1,589**	(5,585)
	Decrease (increase) in other investments	**739**	(3,357)
	Total funds provided	**182,657**	318,249
Use of Funds	Funds used in Operations (*Note 11 (a)*)	**170,493**	
	Reduction in long-term debt	**158,579**	139,102
	Additions to fixed assets	**99,285**	146,760
	Investments in Associate Companies and finance subsidiaries	**11,111**	37,379
	Dividends	**6,370**	29,140
	Purchase of preferred shares *(Note 7)*	**3,001**	
	Reductions in minority interest (after reflecting $845 of dividends in 1978, $662 in 1977, paid by subsidiary companies)	**203**	1,041
	Total funds used	**449,042**	353,422
	Decrease in working capital	**266,385**	35,173
Working Capital	**At beginning of the year**	**696,649**	731,822
	At end of the year	**$430,264**	$696,649
Changes in Elements of Working Capital	Current assets—increase (decrease):		
	Cash	**$ 10,863**	$ 5,615
	Receivables	**27,245**	(58,951)
	Products sold to North American dealers under deferred floor plan arrangements	**(38,425)**	43,596
	Company inventories	**(52,128)**	169,127
	Prepaid expenses and other current assets	**(16,967)**	(2,858)
		(69,412)	156,529
	Current liabilities—(increase) decrease:		
	Bank borrowing and current portion of long-term debt	**(132,220)**	(165,182)
	Accounts payable and accrued charges	**(57,800)**	(44,046)
	Income, sales and other taxes payable	**2,719**	13,341
	Advance payments from customers	**(9,672)**	4,185
		(196,973)	(191,702)
	Net Decrease in Working Capital	**$266,385**	$ 35,173

(See accompanying Notes to Consolidated Financial Statements)

Notes to Consolidated Financial Statements

Years ended October 31, 1978 and 1977 *(in U.S. Dollars)*

1. Summary of Significant Accounting Policies

The accounting policies followed by the Company are those that are generally accepted in Canada. They are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of all subsidiary companies except wholly owned finance subsidiaries, the combined statements of which are set out separately (see page 32). The investment in shares of these subsidiaries is carried in the Consolidated Balance Sheets at the equity in their net assets and their earnings have been included in the Consolidated Statements of Income. The Company considers that this basis of presentation is more informative than full consolidation since (a) it affords a basis of comparison with other major companies in the industry, the larger of which are U.S. based and do not consolidate their finance subsidiaries, (b) it recognizes that these subsidiaries' operations are financed on a different basis than manufacturing and trading operations and that, in North America (which accounts for 56 per cent of the combined finance subsidiaries' assets), there are substantially greater restrictions on the transfer of assets from the finance subsidiaries, and (c) it avoids the implication that the concept of working capital may be appropriately applied to the finance subsidiaries' operations. By way of supplementary information, summarized balance sheets at October 31, 1978 and 1977 and summarized statements of income for the years then ended are set out on page 35 to show the over-all position if the accounts of the finance subsidiaries had been consolidated.

(b) Exchange Translation

The statements of companies whose accounts are maintained in other currencies have been translated into U.S. dollars substantially as follows: inventories carried at cost (including products sold to North American dealers under deferred floor plan arrangements), non-current assets, certain prepaid expenses and deferred income taxes, and related charges or expenses, at historical rates of exchange; all other assets and liabilities, at exchange rates prevailing at the end of the year; income and expenses (other than those indicated above), at average rates for the year. Translation gains or losses are included in income.

(c) Sales and Settlement Accounting

Sales are recorded at the time of shipment to distributors, dealers and other customers, except in the case of transactions with North American dealers under deferred floor plan arrangements.

These latter transactions are accounted for by using the settlement accounting method. Under this method North American sales of farm and industrial equipment, and construction equipment, and the related income, are not reflected in the accounts until settlement is received from the dealer. Amounts receivable from North American dealers under deferred floor plan arrangements are classified as a separate item on the Consolidated Balance Sheets and are carried at the lower of cost or net realizable value of the finished goods concerned rather than at selling price.

This method is considered more appropriate for transactions with North American dealers as the Company, following industry practice, finances the major portion of its dealer inventories by means of floor plan notes. These notes have terms extending up to one year or more, are for the most part interest-free, and settlement is not ordinarily received by the Company until the products are sold by the dealer. During this period the Company occasionally grants price reductions to dealers on slow-moving goods and may also absorb certain other costs prior to settlement from the dealer.

Outside North America, the majority of dealers provide their own financing and pay for goods delivered in accordance with normal trade terms.

(d) Investments in Associate Companies

Associate Companies are those in which the Company owns 50 per cent or less of the voting shares. Investments in such companies are carried in the Consolidated Balance Sheets (a) in the case of continuing investments in Associates over whose operating and financial policies the Company exercises a significant influence, at original cost plus the Company's share of undistributed earnings since acquisition (the equity method), and (b) in the case of other Associates, at original or deemed cost (the cost method). Deemed cost is the carrying value of an investment previously accounted for on the equity method at the date such method becomes inappropriate and ceases to be used. The reduction in 1978 in the total carrying value of these investments arose principally from the dilution of the Company's equity and voting interest in one Associate Company which took place during the year and the related decision to investigate the disposal of this investment and to cease equity accounting therefor as of July 31, 1978. The amount recorded by the Company as its share of that Associate's earnings in 1978 and the dividends received from that Associate during the year were approximately equal. As of October 31, 1978, the majority of the Company's investments in Associate Companies was accounted for on the cost method.

(e) Fixed Assets

Additions to fixed assets are recorded at cost. Depreciation of facilities is provided on a straight-line basis in substantially all of the companies, at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	10 to 50 years
Machinery and equipment	3 to 10 years

Production tooling for new products and for major product changes is generally amortized over a three-year period commencing with the first year of full utilization of the tooling concerned; tooling for replacements and minor product changes is charged against income at the time of purchase.

(f) Research and Development Costs

Research and development costs, substantially all of which are included in Engineering and Product Development Expenses, are expensed as incurred (1978—$47,864,000; 1977—$51,981,000).

(g) Pensions

A substantial portion of the Company's employees are covered by government and Company pension plans. The costs of these plans are charged against income each year and include amounts for current service and amortization of past service costs. Past service costs in trusteed plans are generally being amortized and funded over periods of 15 to 25 years (see Note 5(d)).

(h) Income Taxes

The Company follows the deferred method of tax allocation in accounting for income taxes. Under this method, timing differences between reported and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) can result in deferred or prepaid taxes.

Investment tax credits are accounted for on the flow-through method.

The benefits of loss carry-forwards are generally not recognized until realized. The multinational nature of Massey-Ferguson's operations is such that, on a continuing basis, some subsidiaries are incurring losses (without recognition of the potential carry-forward tax benefits) at the same time that other subsidiaries are realizing the tax benefit of previous losses. On a consolidated basis these annually recurring tax recoveries are not considered to be extraordinary in nature and are accordingly reflected as a reduction of current income tax charges when realized.

Dividend payments from subsidiary companies in a number of countries are subject to withholding and other foreign taxes at various rates and in respect of certain future dividend remittances additional Canadian taxes may be payable in subsequent years.

Provision is made for the related taxes on dividends anticipated in the future out of accumulated earnings. Of the balance of unremitted earnings included in consolidated retained earnings at October 31, 1978, a portion would not be subject to tax; the remainder (estimated at approximately $106,000,000 at October 31, 1978 and $275,000,000 at October 31, 1977) is part of the amount that has been reinvested on a long-term basis and such taxes have accordingly not been provided.

2. Receivables

(a) Receivables include amounts due from finance subsidiaries of $22,535,000 in 1978 and $21,452,000 in 1977.

(b) Receivables are shown net of the following provisions:

	1978	1977
Allowance for doubtful notes and accounts	$ 7,863,000	$ 7,936,000
Discounts, volume and performance bonuses, returns and other allowances	2,044,000	871,000
Unearned interest	2,326,000	1,697,000
	$12,233,000	$10,504,000

3. Fixed Assets

1978	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 24,212,000		$ 24,212,000
Buildings	279,279,000	$102,380,000	176,899,000
Machinery and equipment	671,238,000	350,711,000	320,527,000
Production tooling	123,958,000	43,354,000	80,604,000
Total	$1,098,687,000	$496,445,000	$602,242,000

1977	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 23,099,000		$ 23,099,000
Buildings	266,930,000	$ 93,226,000	173,704,000
Machinery and equipment	635,257,000	316,634,000	318,623,000
Production tooling	119,394,000	40,736,000	78,658,000
Total	$1,044,680,000	$450,596,000	$594,084,000

Depreciation, and amortization of production tooling charged to operations are as follows:

	1978	1977
Depreciation	$56,690,000	$50,335,000
Amortization	20,742,000	18,312,000
	$77,432,000	$68,647,000

4. Income Taxes

The Company's accounting policies with respect to income taxes are set out in Note 1(h). Deferred income taxes are carried on the balance sheets as follows:

Net current deferred tax credits of $14,805,000 in 1978 (net debits of $20,243,000 in 1977), resulting from Stock Appreciation Relief in the United Kingdom, the use of the settlement accounting method in North America, and other current timing differences between taxable and reported income, are grouped with Income, Sales and Other Taxes Payable (Prepaid Expenses and Other Current Assets in 1977).

Non-current deferred income taxes ($64,368,000 in 1978 and $76,639,000 in 1977), primarily resulting from capital cost allowances claimed for tax purposes in excess of depreciation and amortization recorded in the accounts, are shown separately.

The relationship between tax expense and pre-tax accounting income is affected by a variety of tax rates in the many countries in which the Company operates as well as by investment, loss carry-forward and other tax credits. Income taxes were reduced by tax credits arising from prior years' losses which, net of other tax adjustments relating to prior years, amount to $1,640,000 in 1978 and $2,346,000 in 1977.

At October 31, 1978, certain companies had tax losses aggregating $337,576,000 (October 31, 1977—$31,689,000) available to be carried forward for which potential recoveries have not been recognized in the accounts. These loss carry-forwards expire as follows: 1979—$2,289,000; 1980—$3,097,000; 1981—$3,840,000; 1982—$22,531,000; 1983 and beyond—$305,819,000. At current tax rates, the tax recoveries, if realized, would amount to approximately $147,776,000 (1977—$14,407,000).

5. Contingent Liabilities, Commitments, etc.

(a) The total contingent liabilities relating to notes receivable discounted and bills guaranteed etc., were $127,300,000 at October 31, 1978 ($125,600,000 at October 31, 1977).

(b) Under subscription agreements relating to short-term bank borrowings and senior and subordinated notes of the two North American finance subsidiaries, Massey-Ferguson Limited has agreed that it will ensure that assets are maintained in those companies in certain specified relationships with their indebtedness.

(c) Approved capital expenditure programs outstanding at the year end were $115,000,000 including capital commitments of approximately $32,000,000 (1977—$153,000,000 including capital commitments of $44,000,000).

(d) Total pension expense including past service costs was $86,000,000 in 1978 and $78,900,000 in 1977. The actuarially computed value of vested benefits exceeded the market value of pension fund assets and balance sheet accruals by approximately $24,000,000 at October 31, 1978 ($38,000,000 at October 31, 1977). The total unfunded past service obligation was approximately $106,500,000 at October 31, 1978 ($119,800,000 at October 31, 1977). See note 1(g) regarding the basis of accounting for pension costs.

6. Dividends and Debt Covenants

(a) Dividends were declared as follows:

	1978	1977
Preferred Shares (Cdn. $0.63 per share in 1978, Cdn. $2.50 per share in 1977)		
Series A	$ 902,000	$ 3,914,000
Series B	1,352,000	5,867,000
Common Shares (Cdn. $0.25 per share in 1978, Cdn. $1.08 per share in 1977)	4,116,000	19,359,000
	$6,370,000	$29,140,000

Cumulative dividends on the Series A and B preferred shares are in arrears to the extent of Cdn. $1.88 (U.S. $1.61) per share, representing three quarterly dividends. In the event that dividends on preferred shares of any series are in arrears to the extent of eight quarterly dividends, then, until all arrears of dividends on all outstanding preferred shares shall have been paid, each holder of preferred shares shall be entitled to one vote per share for each preferred share held.

(b) In various long-term debt agreements the Company had originally agreed to maintain "Consolidated Net Tangible Assets" at not less than 200 per cent of "Consolidated Funded Indebtedness" and "Consolidated Current Assets" at not less than 145 per cent of "Consolidated Current Liabilities" (all quoted terms being as defined in the debt agreements, which definitions do not directly correspond with the accounting classifications set out in the Consolidated Balance Sheets).

During 1978, the terms of such debt obligations were renegotiated and the present commitment is to maintain (a) "Consolidated Net Tangible Assets" at not less than 150 per cent of "Consolidated Funded Indebtedness" until October 31, 1979, at not less than 175 per cent from November 1, 1979 to October 31, 1980 and at not less than 200 per cent thereafter and (b) "Consolidated Current Assets" at not less than 120 per cent of "Consolidated Current Liabilities" until October 31, 1979, at not less than 130 per cent from November 1, 1979 to October 31, 1980 and at not less than 145 per cent thereafter.

At October 31, 1978, the Company was in compliance with these revised debt test requirements and the Company is confident that the improvements in operating performance that are expected to result from the action programs already taken, or now underway, will ensure continued compliance with its debt test requirements. In addition, the Company has under consideration a number of plans for strengthening its financial position.

Certain of the Company's long-term debt agreements contain limitations on the payment of cash dividends on both the preferred and common shares (and on the purchase or retirement of preferred

or common shares other than pursuant to sinking fund or other purchase requirements). Under the most restrictive of these, cash dividends on preferred and common shares (plus amounts expended to purchase or retire preferred or common shares) may not exceed U.S. $30,000,000 plus 75 per cent of consolidated net income, as defined, earned after November 1, 1977 minus 100 per cent of consolidated net losses, as defined, incurred after that date. Under the 1978 amendments to its loan agreements the Company is also precluded until October 31, 1980 from declaring any cash dividend on any of its preferred or common shares unless, after giving effect to the proposed dividend, "Consolidated Net Tangible Assets" are equal to at least 200 per cent of "Consolidated Funded Indebtedness" and "Consolidated Current Assets" are equal to at least 145 per cent of "Consolidated Current Liabilities".

As a result of the dividend restrictions described above, and the incurrence during the first quarter of 1978 of a net loss in excess of $30,000,000, the Company subsequent to January 31, 1978 suspended dividends on the cumulative preferred shares and the common shares. As at October 31, 1978 cumulative dividends on Series A and B preferred shares are in arrears to the extent of $1.61 per share, or $6,153,000 in total. Dividends on the Company's common shares may not be resumed until all dividends in arrears have been paid on the preferred shares, and preferred share dividends may not be resumed until net income, as defined, accumulated after October 31, 1978 exceeds approximately $265,000,000.

Of consolidated retained earnings, $175,000,000 at October 31, 1978 ($360,000,000 at October 31, 1977) represents the Company's equity in profits of various subsidiaries and Associate Companies outside North America which have not been remitted to Canada. Transfers of earnings from such companies are generally subject to the approval of exchange control authorities, but permission to pay dividends, within reasonable and prudent financial limits as required for corporate purposes, is normally obtainable.

7. Share Capital, Stock Options and Reservation of Shares

	1978			1977		
	Shares Authorized	Shares Issued and Outstanding	Amount paid in	Shares Authorized	Shares Issued and Outstanding	Amount paid in
Share capital consists of the following:						
$2.50 (Cdn.) Cumulative Redeemable Preferred Shares of a par value of $25 (Cdn.) each						
—Series A	**1,526,300**	**1,526,300**	**$ 37,391,000**	1,600,000	1,600,000	$ 39,196,000
—Series B	**2,298,500**	**2,298,500**	**58,399,000**	2,398,500	2,398,500	60,940,000
Common shares without nominal or par value	**25,000,000**	**18,250,350**	**176,888,000**	25,000,000	18,250,350	176,888,000

Except when preferred share dividends are in arrears, the Company is obligated to purchase in the open market up to 16,700 preferred shares per month if the price falls below $25 (Cdn.) per share, up to a maximum of 200,400 shares in any one year. However, if either Series A or Series B preferred share dividends are in arrears the Company is precluded by the provisions attaching to these shares from making any such purchases until all dividends and dividend arrears on both series are fully paid. The first failure to pay a dividend on its normal due date on either series of preferred shares occurred on March 31, 1978 (See Note 6). During the period November 1, 1977 to March 31, 1978 the Company purchased 73,700 Series A and 100,000 Series B preferred shares in the open market, thereby reducing the par value of preferred share capital by $4,346,000 at a cost of $3,001,000. The difference of $1,345,000, which represents "Contributed Surplus", has been included in "Retained Earnings" rather than being shown separately on the balance sheet.

Commencing five years after issue (Series A issued in 1975, and series B issued in 1976), the preferred shares may be redeemed at a premium of $1.25 (Cdn.), such premium reducing by $0.25 (Cdn.) per share annually for five years and thereafter at par. This redemption privilege is, however, subject to the restrictions on share purchases or share redemptions set out in Note 6.

There are reserved for possible future issue 215,350 common shares for employee stock options and 3,267,000 common shares for conversion of the convertible subordinated notes. (No stock options were outstanding at October 31, 1978 or 1977.)

8. Long-Term Debt

Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31.

(a) Bonds, debentures, notes and loans:	**1978**	1977
	(Thousands of U.S. Dollars)	
Massey-Ferguson do Brasil S.A. (Brazil):		
Bank loans maturing 1979-84 repayable in U.S. dollars bearing interest at ¾%—2½% above Eurodollar interbank rate	**$ 29,557**	$ 29,436
Motores Perkins S.A. (Brazil):		
Bank Loans maturing 1979-83 repayable in U.S. dollars bearing interest at ⅞%—2¼% above Eurodollar interbank rate	**13,900**	13,554
Massey-Ferguson Industries Limited (Canada):		
5⅞% Secured Promissory Note maturing 1979-85	**8,258**	9,933
Massey-Ferguson S.A. (France):		
Bank Loans maturing 1985 bearing interest at 1.85% above base rate	**25,625**	
Massey-Ferguson GmbH (Germany):		
7½% Bank Loan maturing 1979	**7,651**	11,908
Massey-Ferguson Holdings Limited (United Kingdom):		
7½% Loan Stock maturing 1984-92	**16,548**	18,317
Bank Loans maturing 1979-84 bearing interest at various London bank market rates	**49,168**	63,919
Massey-Ferguson Inc. (U.S.A.):		
8.55% Promissory Notes maturing 1979-84	**30,900**	30,900
5⅞% Subordinated Notes maturing 1979-84	**13,560**	15,120
Perkins Diesel Corporation (U.S.A.):		
Capitalized value of property and equipment lease terminating 1993 discounted at 10%	**26,370**	27,117
Massey-Ferguson (Delaware) Inc. (U.S.A.):		
9% Senior Note, guaranteed by Massey-Ferguson Limited, maturing 1983-97	**150,000**	

General Purpose Loans (*Repayable in U.S. Dollars*):		
9% Sinking Fund Debentures maturing 1979-82	9,500	11,000
9½% Debentures maturing 1991	70,500	75,000
9¾% Sinking Fund Debentures maturing 1979-82	34,000	36,000
9% Bank Loan maturing 1979	10,796	10,523
Bank Loans maturing 1978 bearing interest at ¾%—1½% above Eurodollar interbank rate		55,000
Promissory Note maturing 1979-80 bearing interest at 1⅛% above Eurodollar interbank rate	8,334	13,889
Promissory Notes maturing 1979 bearing interest at 1% above Eurodollar interbank rate	15,000	15,000
Other Long-Term Debt (*Note 8(d)*)	100,142	89,195
Bank Borrowings		39,400
	$619,809	$565,211

(b) Convertible subordinated notes:

Massey-Ferguson (Delaware) Inc. (U.S.A.):		
9¾% (10% effective December 1, 1978) Convertible Subordinated Notes maturing 1988-92	$147,000	$147,000

These notes are convertible into common shares of Massey-Ferguson Limited at an initial price of U.S. $45.00 per share rising to U.S. $55.00 per share in 1982. There is no dilution of 1978 results per common share as a result of this convertible feature.

(c) Sinking fund requirements and debt maturities during the next five years are as follows: 1979—$115,009,000; 1980—$60,476,000; 1981—$43,087,000; 1982—$71,147,000; 1983—$47,566,000.

(d) Other long-term debt includes long-term loans each of which is less than $10,000,000.

9. Business Segment Information

The Company operates in three industry segments: Farm and Industrial Machinery, involving the manufacture and sale of farm and industrial tractors, farm balers, harvesters, other agricultural implements and industrial loaders; Construction Machinery, involving the manufacture and sale of crawler loaders, dozers, compactors, four-wheel-drive loaders and hydraulic excavators; and Engines, involving the production and sale of multi-cylinder, multi-purpose diesel engines.

Operations and identifiable assets by industry segment for the year ended October 31, 1978 are as follows (in millions of U.S. dollars):

	Farm and Industrial Machinery	Engines	Construction Machinery	Adjustments and Eliminations	Consolidated
Sales to unaffiliated customers	$2,216	$ 446	$ 264		$2,926
Intersegment sales		183		$ (183)	
	$2,216	$ 629	$ 264	$ (183)	$2,926
Operating profit (loss)	$ 105	$ 65	$ (7)	$ (22)	$ 141
Interest expense (net)					187
Exchange adjustments					91
General corporate expense					13
Loss before Provision for Reorganization Expense, Income Taxes and Equity in net income of finance subsidiaries and Associate Companies					$ (150)
Identifiable assets	$1,674	$ 364	$ 260	$ (28)	$2,270
Investment in finance subsidiaries and Associate Companies					202
Corporate assets					75
Total assets					$2,547
Depreciation and Amortization	$ 51	$ 20	$ 6		$ 77
Capital expenditures	$ 72	$ 22	$ 5		$ 99

Operations and identifiable assets by geographic region for the year ended October 31, 1978 are as follows (in millions of U.S. dollars):

	Canada	U.S.	Latin America	Europe and Other	Adjustments and Eliminations	Consolidated
Sales to unaffiliated customers	$ 197	$ 708	$ 324	$1,697		$2,926
Sales among geographic regions	189	110	3	178	$ (480)	
	$ 386	$ 818	$ 327	$1,875	$ (480)	$2,926
Operating profit (loss)	$ (4)	$ (18)	$ 22	$ 159	$ (18)	$ 141
Interest expense (net)						187
Exchange adjustments						91
General corporate expense						13
Loss before Provision for Reorganization Expense, Income Taxes and Equity in net income of finance subsidiaries and Associate Companies						$ (150)
Identifiable assets	$ 228	$ 711	$ 263	$1,096	$ (28)	$2,270
Investments in finance subsidiaries, and Associate Companies						202
Corporate assets						75
Total assets						$2,547

Intersegment and interregional sales are accounted for at prices which the Company believes approximate market.

As stated above, the loss of $150 is before Provision for Reorganization Expense of $116. This provision can be allocated as follows: by industry segment, $55 to Farm and Industrial Machinery, $5 to Engines and $43 to Construction Machinery; by geographic segment, $1 to Canada, $19 to U.S., $7 to Latin America and $76 to Europe and Other; in each case, the balance of $13 relates to general corporate expense and Associate Companies.

10. Provision for Reorganization Expense

During the year the Company initiated several action programs to cope with problems adversely affecting its operations and financial position. The estimated costs of these programs are shown as a separate item on the statement of income under the caption "Provision for reorganization expense". The principal components are as follows:

	(Thousands of U.S. Dollars)
Rationalization and restructuring of constructions machinery manufacturing operations in Europe, and discontinuance of sale of construction machinery in North America and several other markets (consisting principally of relocation expenses, employee termination and redundancy, dealer discounts and allowances, inventory write-downs and other closure expenses).	$ 43,400
Rationalization and realignment of other manufacturing facilities (consisting principally of relocation expenses, employee termination and redundancy, inventory and fixed asset write-downs and other closure expenses).	37,700
Termination and redundancy payments other than for the above programs	26,100
Reduction in carrying value of certain investments whose disposition is completed or planned.	8,800
Total	$116,000

In addition to costs already incurred, the above provision also includes Management's best calculations and estimates of the costs still to be incurred in connection with these programs. However, because of the complexities of certain of the programs and the period of time required to complete them, it is not possible to make a precise determination of the eventual total cost, which may be more or less than the amounts provided.

11. Other Information

(a) Funds used in (from) Operations

	(Thousands of U.S. Dollars) 1978	1977
Net loss (income) for the year	**$256,709**	$ (32,720)
Items not affecting working capital:		
Depreciation and amortization	**(77,432)**	(68,647)
Exchange adjustments on long-term debt	**(25,000)**	
Provision for reorganization expense not requiring a current outlay of working capital	**(17,111)**	
Equity in earnings of finance subsidiaries in excess of dividends received	**16,206**	8,420
Decrease (increase) in deferred income taxes	**12,234**	(5,645)
Equity in earnings of Associate Companies in excess of dividends received	**2,769**	3,657
Profit on disposal of fixed assets	**1,302**	2,214
Minority interest	**816**	(2,112)
	(86,216)	(62,113)
Funds used in (from) Operations	**$170,493**	$(94,833)

(b) Quarterly condensed income statements for 1978 and 1977 in millions of U.S. dollars are as follows (unaudited):

	1978 Quarter 1	2	3	4
Net sales	**$535.4**	**$776.6**	**$710.2**	**$903.3**
Costs and expenses	**568.6**	**772.2**	**768.1**	**966.4**
(Loss) Profit before Reorganization Expense, Income Taxes and items shown below	**(33.2)**	**4.4**	**(57.9)**	**(63.1)**
Provision for Reorganization Expense		**21.1**	**43.5**	**51.4**
(Loss) before Income Taxes and items shown below	**(33.2)**	**(16.7)**	**(101.4)**	**(114.5)**
Income taxes (recovery)	**9.2**	**5.2**	**(3.9)**	**1.2**
(Loss) before items shown below	**(42.4)**	**(21.9)**	**(97.5)**	**(115.7)**
Equity in net income (loss) of:				
Finance subsidiaries	**4.8**	**2.7**	**4.0**	**4.7**
Associate Companies	**(1.2)**	**2.5**	**3.5**	**(0.2)**
Net (loss)	**$ (38.8)**	**$ (16.7)**	**$ (90.0)**	**$(111.2)**
(Loss) per common share (in U.S. dollars after cumulative dividends on preferred shares)	**$ (2.25)**	**$ (1.03)**	**$ (5.05)**	**$(6.20)**

	1977 Quarter 1	2	3	4
Net sales	$491.4	$660.9	$733.4	$919.6
Costs and expenses	487.5	663.9	729.3	894.0
Profit (loss) before Income Taxes and items shown below	3.9	(3.0)	4.1	25.6
Income taxes (recovery)	1.7	(0.2)	2.0	7.9
Profit (loss) before items shown below	2.2	(2.8)	2.1	17.7
Equity in net income (loss) of:				
Finance subsidiaries	1.1	1.8	2.2	3.4
Associate Companies	(0.2)	3.1	3.5	(1.4)
Net income	$ 3.1	$ 2.1	$ 7.8	$ 19.7
Income (loss) per common share (in U.S. dollars after dividends on preferred shares)	$ 0.03	$ (0.02)	$ 0.30	$ 0.95

(c) The SEC in Accounting Series Release 190 has ruled that larger industrial companies registered with them must disclose selected replacement cost information in their annual 10-K statement (a copy of which is available upon request, see inside front cover) filed with the Commission. The Company's 10-K Report contains specific information with respect to replacement cost of inventories and productive capacity (generally buildings, machinery and equipment) and a discussion of the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense for the year. Although the Company is concerned about the effect of world-wide inflation on its statements, it believes the information required by the SEC is of limited, if any, value because of the subjective judgments required in its preparation. This material is unaudited.

(d) Interest income of $42,591,000 in 1978 and $47,547,000 in 1977 had been deducted from other interest expense in the Consolidated Statements in Income.

(e) Other assets and deferred charges include housing loans of $233,000 to officers at October 31, 1978, ($153,000 at October 31, 1977).

(f) Aggregate remuneration to persons who served as Directors and Officers of Massey-Ferguson Limited at any time during the year was as follows:

Remuneration paid by:	22 Directors	23 Officers (5 Officers were also Directors)
Massey-Ferguson Limited (holding company)	$ 95,000	$1,146,000
Subsidiary companies—principally Massey-Ferguson Inc. (U.S.A.)	8,000	1,706,000
	$103,000	$2,852,000

Finance Subsidiaries

(*Thousands of U.S. Dollars*)

Combined Statements of Income and Retained Earnings
Years ended October 31, 1978 and 1977

	1978	1977
Revenue:		
Interest and finance fees (including income from affiliates of $53,112 in 1978 and $25,877 in 1977)	$ 102,790	$ 69,473
Discounts	6,114	4,601
	108,904	74,074
Expenses:		
Administrative expenses	13,995	13,568
Interest on long-term debt	25,958	15,121
Interest on short-term debt (including $1,945 paid to affiliates in 1978 and $98 in 1977)	42,277	27,217
Provision for doubtful accounts (recovery)	601	(357)
Exchange adjustments	(2,747)	679
	80,084	56,228
Income before Income Taxes	28,820	17,846
Income taxes:		
Current	13,217	8,103
Deferred	(684)	1,256
	12,533	9,359
Net Income for the Year	16,287	8,487
Retained Earnings at Beginning of Year	54,648	46,228
	70,935	54,715
Deduct dividends on preferred shares	81	67
Retained Earnings at End of Year	$ 70,854	$ 54,648

Combined Statements of Assets and Liabilities
October 31, 1978 and 1977

	1978	1977
Assets:		
Cash	$ 30,818	$ 5,734
Receivables *(Note 2)*	1,010,742	933,115
Prepaid expenses	2,952	2,427
	$1,044,512	$ 941,276
Liabilities:		
Short-term notes payable—Banks	$ 493,766	$ 295,547
—Others	52,417	237,865
Due to affiliates	22,535	21,452
Long-term advances from affiliates	8,072	
Dealer deposits	14,209	12,085
Accrued charges	14,055	8,492
Income taxes payable	1,973	1,054
Deferred income taxes	7,357	7,797
Long-term debt *(Note 3)*	306,014	250,533
	920,398	834,825
Equity of Massey-Ferguson Limited:		
Share capital	53,260	51,803
Retained earnings *(Note 3 (d))*	70,854	54,648
	124,114	106,451
	$1,044,512	$ 941,276

Combined Statements of Changes in Financial Position
Years ended October 31, 1978 and 1977

	1978	1977
Source of Funds:		
Net income	$ 16,287	$ 8,487
Collection on liquidation of receivables	1,891,125	1,187,873
Proceeds from long-term debt issues	135,322	71,919
Increase in short-term notes payable	12,771	200,419
Increase in long-term advances from affiliates	8,072	
Increase in accrued charges	5,563	864
Increase in dealer deposits	2,124	1,640
Proceeds from common share issues	1,457	34,044
Increase in due to affiliates	1,083	8,403
Increase in unearned interest and discount, and allowance for doubtful accounts	218	29,391
(Decrease) increase in other accounts—net	(127)	1,009
Total funds provided	$2,073,895	$1,544,049
Use of Funds:		
Cost of receivables acquired	$1,968,970	$1,530,931
Reductions in long-term debt	79,841	13,333
Increase (decrease) in cash	25,084	(215)
Total funds used	$2,073,895	$1,544,049

(See accompanying Notes to Combined Finance Subsidiaries' Statements)

Notes to Combined Finance Subsidiaries' Statements

Years ended October 31, 1978 and 1977 *(in U.S. Dollars)*

1. Summary of Significant Accounting Policies

The accounting policies followed by the companies are those that are generally accepted in Canada. They are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

(a) Basis of Presentation

The accompanying financial statements combine the accounts of Massey-Ferguson Finance Company of Canada Limited and its subsidiaries Massey-Ferguson Finance (Alberta) Limited and Massey-Ferguson (Quebec) Limitée; Massey-Ferguson Credit Corporation (U.S.A.) and its finance subsidiary; Massey-Ferguson-Perkins Finance Company Limited (U.K.); Perkins Engines Finance Company Limited (U.K.); Massey-Ferguson Finance AG (Switzerland); MF Finanziaria S.p.A. (Italy); Massey-Ferguson Finance (Australia) Limited and MF Factoring GmbH (Germany).

During the year a new finance subsidiary was formed in Germany under the name of MF Factoring GmbH to help finance domestic operations.

While the books of the United States finance subsidiaries are maintained, and their tax returns filed, on a modified cash basis of accounting, the accompanying financial statements incorporate adjustments to reflect the financial position of these subsidiaries on an accrual basis of accounting.

(b) Exchange Translation

The statements of companies whose accounts are maintained in other currencies have been translated into U.S. dollars substantially as follows: assets and liabilities at exchange rates prevailing at the end of the year; share capital at rates prevailing at the date of issue; revenue and expenses at average exchange rates during the year. Translation gains or losses are included in income.

(c) Finance Income

Interest and discounts are generally taken into income in declining amounts over the life of the contract on the basis of effective yield.

(d) Income Taxes

The companies follow the deferred method of tax allocation in accounting for income taxes.

(e) Classification of Assets and Liabilities

In accordance with industry practice, the assets and liabilities have not been classified as current or non-current.

2. Receivables

Receivables are shown net of the following provisions:

	1978	1977
Allowance for doubtful accounts	**$ 7,441,000**	$ 6,381,000
Unearned interest and discount	**122,028,000**	122,870,000
	$129,469,000	$129,251,000

At October 31, 1978 approximately 43 per cent (45 per cent at October 31, 1977) of the receivables, before provisions, mature beyond one year, as follows:

	1978	1977
13—24 months	**$204,911,000**	$234,537,000
25—36 months	**132,977,000**	142,073,000
37—48 months	**67,855,000**	72,424,000
over 48 months	**25,773,000**	28,028,000
	$431,516,000	$477,062,000

Receivables of the Canadian and U.S. finance subsidiaries include interest bearing wholesale receivables from North American dealers of $2,656,000 in 1978 and $4,795,000 in 1977.

3. Long-Term Debt

(a) Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31.

	1978	1977
	(Thousands of U.S. dollars)	
Massey-Ferguson Finance (Australia) Limited:		
12% Senior Notes maturing 1979	**$ 4,752**	$ 4,540
Massey-Ferguson Finance Company of Canada Limited:		
9¾% Senior Debentures maturing 1979-80	**3,508**	4,219
12¼% Senior Notes maturing 1982-84	**21,450**	
Senior Note maturing 1980-82 repayable in U.S. dollars bearing interest at 1⅛% above Eurodollar interbank rate	**10,000**	10,000
8½% Subordinated Notes maturing 1979-84	**3,089**	3,793
11⅛% Subordinated Notes maturing 1979-91	**6,005**	6,321
Subordinated Note maturing 1980-82 repayable in U.S. dollars bearing interest at 1⅝% above Eurodollar interbank rate	**5,000**	5,000
MF Finanziaria S.p.A (Italy):		
14.37% Senior Note maturing 1980-82	**6,310**	5,685
Massey-Ferguson Credit Corporation (U.S.A.):		
5¼% Senior Notes maturing 1979-86	**20,000**	22,500
7⅝% Senior Notes maturing 1979-88	**13,440**	14,700
8¾% Senior Notes maturing 1983-87	**35,000**	35,000
9¾% Senior Notes maturing 1979-91	**35,000**	35,000
Senior Notes maturing 1979-80 bearing interest at 1⅝% above Eurodollar interbank rate	**12,500**	
Senior Notes maturing 1980-83 bearing interest at 1⅛% above Eurodollar interbank rate	**30,000**	
Senior Notes maturing 1981-83 bearing interest at 1⅛% above Eurodollar interbank rate	**30,000**	
8% Senior Debentures maturing 1979-93	**20,000**	20,000
5½% Subordinated Notes maturing 1979-80	**1,600**	2,600
7⅞% Subordinated Notes maturing 1979-88	**3,360**	3,675
9¼% Subordinated Notes maturing 1982-92	**10,000**	10,000
10% Subordinated Notes maturing 1979-91	**15,000**	15,000
Subordinated Notes maturing 1981-83 bearing interest at 1⅛% above the Eurodollar interbank rate	**20,000**	
Subordinated Notes maturing 1978 bearing interest at 1% above Eurodollar interbank rate		10,000
Short-term notes payable		42,500
	$306,014	$250,533
Senior	**$241,960**	$194,144
Subordinated	**64,054**	56,389
	$306,014	$250,533

(b) Instalments due and maturities during the next five years are as follows: 1979—$23,868,000; 1980—$23,982,000; 1981—$36,626,000; 1982—$51,937,000; 1983—$51,937,000.

(c) In connection with the agreements relating to the long-term debt, $37,043,000, of the finance subsidiaries' retained earnings are restricted as to dividends.

4. Business Segment Information

The finance subsidiaries comprise a single industry segment. Operations and identifiable assets by geographic region for the year ended October 31, 1978 are as follows:

	Canada	U.S.	Europe and Other	Combined
Interest and Finance fees	$ 14,033,000	$ 55,539,000	$ 39,332,000	$ 108,904,000
Net Income	$ 348,000	$ 8,851,000	$ 7,088,000	$ 16,287,000
Identifiable assets, at October 31 1978	$120,674,000	$468,695,000	$455,143,000	$1,044,512,000

Auditors' Report

To the Shareholders of Massey-Ferguson Limited:

We have examined the consolidated balance sheets of Massey-Ferguson Limited as at October 31, 1978 and 1977, and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. We have also examined the combined statements of assets and liabilities of the Finance Subsidiaries of Massey-Ferguson Limited as at October 31, 1978 and 1977, and the combined statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Note 10 refers to the fact that provision has been made in the 1978 accounts for the costs of various reorganization programs that have been undertaken to cope with problems adversely affecting the Company's operations and financial position. However, because of the complexities of certain of the programs and the period of time required to complete them, it is not possible to make a precise determination of the eventual total cost, which may be more or less than the amounts provided.

In our opinion, (a) subject to the effects, if any, on the 1978 consolidated financial statements of the ultimate determination of the actual costs of the programs referred to in the preceding paragraph, the consolidated financial statements present fairly the consolidated financial position of Massey-Ferguson Limited as at October 31, 1978 and 1977 and the results of its consolidated operations and the changes in its consolidated financial position for the years then ended, and (b) the combined financial statements present fairly the combined assets and liabilities of the Finance Subsidiaries as at October 31, 1978 and 1977 and the results of their combined operations and the changes in their combined financial position for the years then ended, all in accordance with generally accepted accounting principles applied on a consistent basis during the period.

Clarkson, Gordon & Co.

Toronto, Canada,
December 15, 1978.

Chartered Accountants.

Supplementary Information

Showing Financial Position and Results of Operations had the Finance Subsidiaries been Consolidated.
(See Note 1(a) to Consolidated Financial Statements)

(Thousands of U.S. Dollars)

Summarized Statements of Income

Years ended October 31, 1978 and 1977

	1978	1977
Income:		
Net Sales	**$2,925,944**	$2,805,262
Revenue of finance subsidiaries (excluding inter-company)	**55,792**	48,197
	2,981,736	2,853,459
Costs and Expenses:		
Cost of goods sold, marketing, general, administrative, engineering and product development expenses	**2,802,008**	2,607,370
Interest on long-term debt	**104,625**	71,509
Other interest (net)	**118,842**	111,357
Exchange adjustments	**88,166**	22,978
Minority interest	**(816)**	2,112
Miscellaneous income	**(10,080)**	(10,283)
	3,102,745	2,805,043
(Loss) Profit before Reorganization Expense, Income Taxes, and equity in Net Income of Associate Companies.	**(121,009)**	48,416
Provision for Reorganization Expense	**116,000**	
(Loss) Profit before Income Taxes and Equity in Net Income of Associate Companies.	**(237,009)**	48,416
Income Taxes	**24,296**	20,746
(Loss) Profit before Equity in Net Income of Associate Companies	**(261,305)**	27,670
Equity in net income of Associate Companies.	**4,596**	5,050
Net (Loss) Income for the Year	**$ (256,709)**	$ 32,720

Summarized Balance Sheets

October 31, 1978 and 1977

	1978	1977
Assets		
Current assets:		
Cash	**$ 54,256**	$ 18,309
Receivables	**990,145**	840,906
Products sold to North American dealers under deferred floor plan arrangements	**175,685**	214,110
Company inventories	**1,083,822**	1,135,950
Prepaids	**60,303**	84,055
Total Current Assets	**2,364,211**	2,293,330
Receivables due beyond one year	**358,624**	398,487
Investments	**81,124**	88,503
Fixed assets (net)	**602,242**	594,084
Other assets and deferred charges	**29,301**	33,390
Total Assets	**$3,435,502**	$3,407,794
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank borrowings and short-term notes payable	**$ 908,453**	$ 782,650
Current portion of long-term debt	**138,877**	111,965
Accounts payable and accrued charges	**747,402**	685,762
Income, sales and other taxes payable	**45,840**	47,640
Advance payments from customers and dealer deposits	**30,310**	18,514
Total Current Liabilities	**1,870,882**	1,646,531
Deferred income taxes	**71,725**	84,436
Long-term debt	**933,946**	850,779
Minority interest	**18,428**	19,447
Total Liabilities	**2,894,981**	2,601,193
Shareholders' Equity:		
Share capital		
Preferred shares	**95,790**	100,136
Common shares	**176,888**	176,888
Retained earnings	**267,843**	529,577
	540,521	806,601
Total Liabilities and Shareholders' Equity	**$3,435,502**	$3,407,794

Sales Statistics

(Millions of U.S. Dollars)

		1978* % of Total	1978* Amount $	1977* $	1976* $	1975* $	1974* $	1973* $	1972* $	1971 $	1970 $	1969 $
Net Sales By Markets	**North America**											
	Canada	**6.4**	**188.7**	193.5	213.2	184.0	142.4	100.2	85.8	69.1	65.2	79.9
	United States	**23.6**	**689.1**	646.4	641.9	562.4	471.6	422.2	330.8	293.6	247.8	285.9
	Total	**30.0**	**877.8**	839.9	855.1	746.4	614.0	522.4	416.6	362.7	313.0	365.8
	Europe											
	United Kingdom	**11.5**	**336.3**	274.4	225.4	211.6	157.5	146.8	128.9	116.2	114.3	106.1
	West Germany	**9.9**	**288.4**	220.2	183.1	157.5	88.0	102.6	62.4	56.4	57.8	47.5
	France	**6.6**	**194.5**	189.3	166.7	171.3	142.4	137.4	119.2	95.6	88.5	110.7
	Italy	**5.4**	**157.0**	136.2	119.1	89.5	59.3	54.5	45.7	39.4	41.8	37.3
	Scandinavia	**3.8**	**110.6**	102.7	90.4	86.9	56.1	45.6	42.3	41.3	39.7	34.7
	Benelux	**1.3**	**38.9**	44.2	39.8	33.3	19.0	15.8	10.5	9.3	11.6	8.4
	Spain	**0.6**	**16.2**	21.6	19.3	18.6	16.7	10.2	8.3	4.3	8.1	9.0
	Austria	**0.5**	**14.0**	21.9	15.9	14.4	10.3	10.9	8.3	10.1	8.2	6.0
	Other	**1.6**	**47.9**	42.9	30.5	30.4	17.5	16.1	14.3	13.9	14.0	11.5
	Total	**41.2**	**1,203.8**	1,053.4	890.2	813.5	566.8	539.9	439.9	386.5	384.0	371.2
	Latin America											
	Brazil	**8.9**	**260.4**	277.1	403.6	363.1	213.3	164.5	121.5	76.4	58.8	43.0
	Mexico	**1.4**	**42.6**	20.9	37.4	35.0	19.0	11.3	11.5	11.5	11.7	11.8
	Argentina	**1.2**	**34.0**	109.2	72.6	51.7	51.1	29.2	15.5	10.1	9.6	3.8
	Other	**1.4**	**41.8**	48.3	35.8	51.8	32.7	23.5	15.9	21.8	14.7	11.5
	Total	**12.9**	**378.8**	455.5	549.4	501.6	316.1	228.5	164.4	119.8	94.8	70.1
	Africa											
	South Africa	**2.7**	**80.5**	76.5	73.0	99.2	70.2	45.5	43.6	44.7	38.0	38.9
	Libya	**0.5**	**13.6**	14.6	14.8	28.9	19.0	11.4	7.7	4.2	0.6	3.4
	Sudan	**0.1**	**2.0**	4.2	10.5	3.5	1.7	0.3	4.8	0.5	2.6	1.4
	Other	**2.4**	**69.6**	73.1	51.3	63.9	36.1	26.4	21.5	27.5	27.5	24.3
	Total	**5.7**	**165.7**	168.4	149.6	195.5	127.0	83.6	77.6	76.9	68.7	68.0
	Asia											
	Iran	**1.0**	**30.8**	10.1	38.5	15.5	0.8	0.3	0.1	0.2	0.1	0.9
	Turkey	**1.0**	**28.4**	51.6	76.4	44.3	24.4	29.0	16.2	8.1	3.9	10.0
	Pakistan	**0.4**	**12.2**	21.1	29.2	15.9	5.4	1.4	2.8	1.8	4.0	4.0
	Japan	**1.0**	**30.4**	18.8	17.2	23.4	12.5	7.7	6.5	7.4	5.4	4.3
	Other	**3.3**	**95.5**	65.2	44.6	48.4	25.2	19.1	17.8	23.3	20.1	19.8
	Total	**6.7**	**197.3**	166.8	205.9	147.5	68.3	57.5	43.4	40.8	33.5	39.0
	Australasia	**3.5**	**102.1**	121.3	121.5	108.8	92.4	74.3	50.5	42.6	43.9	55.3
	Total	**100.0**	**2,925.5**	2,805.3	2,771.7	2,513.3	1,784.6	1,506.2	1,192.4	1,029.3	937.9	969.4
Net Sales By Quarters	First	**18.3**	**535.4**	491.4	498.5	437.4	339.6	253.9	177.7	197.6	172.8	158.8
	Second	**26.5**	**776.6**	660.9	713.6	604.1	434.1	359.2	287.8	256.4	249.7	248.2
	Third	**24.3**	**710.2**	733.4	667.5	645.2	457.5	380.5	327.4	249.4	235.9	265.7
	Fourth	**30.9**	**903.3**	919.6	892.1	826.6	553.4	512.6	399.5	325.9	279.5	296.7
	Total	**100.0**	**2,925.5**	2,805.3	2,771.7	2,513.3	1,784.6	1,506.2	1,192.4	1,029.3	937.9	969.4
Net Sales By Products	**Farm & Industrial Machinery:**											
	Tractors	**38.6**	**1,128.3**	1,178.2	1,171.5	1,020.5	674.4	575.5	474.2	396.0	331.0	339.6
	Grain Harvesting	**11.4**	**334.8**	308.4	359.8	340.1	248.3	202.6	143.3	128.0	99.4	148.4
	Hay Harvesting	**1.8**	**51.5**	61.2	52.8	51.2	39.6	37.1	28.5	29.3	26.1	30.1
	Industrial Machines	**5.9**	**173.5**	146.4	147.6	129.9	120.3	119.3	104.9	84.7	89.5	89.9
	Other Products	**7.6**	**221.8**	224.1	230.1	215.2	190.9	152.1	111.4	97.0	99.6	94.7
	Parts	**10.4**	**305.7**	275.4	267.2	267.9	215.6	175.9	135.9	116.4	102.1	95.4
	Total	**75.7**	**2,215.6**	2,193.7	2,229.0	2,024.8	1,489.1	1,262.5	998.2	851.4	747.7	798.1
	Construction Machinery											
	Machines	**7.5**	**220.2**	185.7	169.6	158.0	78.3	61.8	37.3	36.9	38.6	38.1
	Parts	**1.5**	**43.7**	39.0	33.4	35.7	12.4	9.0	6.6	5.9	6.2	6.1
	Total	**9.0**	**263.9**	224.7	203.0	193.7	90.7	70.8	43.9	42.8	44.8	44.2
	Engines											
	Engines	**19.2**	**560.9**	512.9	486.0	402.1	263.0	220.8	197.7	166.1	179.4	160.7
	Deduct MF	**(6.2)**	**(182.7)**	(182.4)	(200.4)	(168.7)	(104.8)	(87.1)	(80.0)	(59.1)	(57.8)	(55.8)
	Parts	**2.3**	**67.8**	56.4	54.1	61.4	46.6	39.2	32.6	28.1	23.8	22.2
	Total (Net)	**15.3**	**446.0**	386.9	339.7	294.8	204.8	172.9	150.3	135.1	145.4	127.1
	Total	**100.0**	**2,925.5**	2,805.3	2,771.7	2,513.3	1,784.6	1,506.2	1,192.4	1,029.3	937.9	969.4

*Settlement accounting: for 1972-78 only. See page 27. It is not practicable to restate individual years prior to 1972.

Financial Statistics

(*Millions of U.S. Dollars except as indicated*)			1978	1977	1976	1975	1974*
Summary of Operations	Net sales	$	**2,925**	2,805	2,772	2,513	1,785
	Gross profit	$	**554**	596	654	574	407
	Net expenses (excluding interest)	$	**517**	414	384	337	246
	Interest expense (net)	$	**187**	151	101	99	57
	Provision for Reorganization Expense	$	**116**				
	(Loss) Profit before taxes, etc.	$	**(266)**	31	169	138	104
	Income taxes	$	**12**	11	61	48	37
	Finance subsidiaries and Associate Cos.	$	**21**	13	10	9	7
	Net (loss) income	$	**(257)**	33	118	99	74
	Dividends—Common	$	**4**	19	18	13	15
	—Preferred	$	**2**	10	7	2	
	(Loss) income retained	$	**(263)**	4	93	84	59
Financial Condition	Working capital	$	**430**	697	732	626	507
	Additions to fixed assets	$	**99**	147	175	170	110
	Depreciation and amortization	$	**77**	69	54	45	35
	Total assets	$	**2,547**	2,594	2,305	1,997	1,620
	Current ratio		**1.3**	1.6	1.8	1.8	1.7
	Asset turnover ratio		**1.2**	1.1	1.2	1.3	1.1
	Debt/equity ratio		**2.1**	1.2	0.9	1.0	0.9
Liabilities and Shareholders' Equity	Current	$	**1,272**	1,075	883	830	721
	Other	$	**735**	712	619	515	369
	Shareholders' equity	$	**541**	807	803	652	530
	Return on closing equity	%	**(47.5)**	4	15	15	14
Per Cent Increase From Previous Year	Sales	%	**4.3**	1.2	10.3	40.8	18.5
	Cost of goods sold	%	**7.3**	4.4	9.2	40.7	18.9
As a Per Cent of Sales	Cost of goods sold	%	**81.1**	78.8	76.4	77.1	77.2
	Gross margin	%	**18.9**	21.2	23.6	22.9	22.8
	Marketing, general and administrative	%	**12.7**	11.8	11.1	10.7	11.4
	Engineering and product development	%	**2.3**	2.4	2.2	2.2	2.4
	(Loss) Profit before Provision for Reorganization Expense, taxes, etc.	%	**(5.1)**	1.1	6.1	5.5	5.8
	Provision for Reorganization Expense	%	**4.0**				
	Net (Loss) Income	%	**(8.8)**	1.2	4.3	3.9	4.1
Per Common Share ($U.S.)	Net sales	$	**160.27**	153.71	151.87	137.71	97.80
	(Loss), Income (after cumulative dividends on preferred shares)	$	**(14.53)**	1.26	6.04	5.31	4.05
	(Loss) Income retained	$	**(14.41)**	0.20	5.07	4.62	3.23
	Equity	$	**24.37**	38.71	38.51	33.56	29.04
	Toronto Stock Exchange quotes, High ($Canadian)	$	**20¼**	24⅛	32	18⅛	24⅜
	Low	$	**9½**	16⅛	16¾	12⅛	11½
	Dividends declared ($Canadian)	$	**0.25**	1.08	1.00	0.70	0.80
	Dividends paid ($Canadian)	$	**0.25**	1.08	1.00	0.90	0.80
Shareholders/Employees	Employees		**57,983**	67,151	68,200	64,572	60,822
	Shareholders—Common shares		**31,353**	30,619	31,039	35,844	34,541
	—Preferred shares		**11,370**	10,208	10,620	5,046	
	Common shares outstanding (thousands)		**18,250**	18,250	18,250	18,250	18,248
	Preferred shares outstanding (thousands)		**3,825**	3,999	3,999	1,600	

*It was not practicable to include the impact of FASB 8 for years prior to 1974, which year includes the cumulative effect of all prior years.

Operating Companies–Facilities and Products

Farm and Industrial Machinery

Argentina
Massey-Ferguson Argentina S.A.
Rosario Plant (270,000 sq. ft.) – agricultural tractors.
San Lorenzo Plant (76,000 sq. ft.) – implements.

Australia
Massey-Ferguson (Australia) Limited
Bundaberg Plant (207,000 sq. ft.) – sugar cane harvesters, loaders, backhoes.
Sunshine (Melbourne) Plant (1,373,000 sq. ft.) – combines, implements.

Brazil
Massey-Ferguson do Brasil S.A.
Canoas Plant (581,500 sq. ft.) – combines, implements, backhoes.
Sao Paulo Plant (389,000 sq. ft.) – agricultural and industrial tractors.

Canada
Massey-Ferguson Industries Limited
Brantford Locations
–*Combine Plant (812,000 sq. ft.)* – combines, combine cabs.
–*Foundry (255,000 sq. ft.)* – grey iron castings.
–*Implement Plant (804,000 sq. ft.)* – plows, mowers, rakes and other implements, combine and tractor components.
–*Steel Processing Plant (275,000 sq. ft.)* – steel stampings.
Toronto Plant (1,835,000 sq. ft.) – balers, corn heads, forage harvesters, tractor cabs, combine and tractor components.
Kanmet Ltd.
Cambridge Foundry (61,000 sq. ft.) – grey iron and nodular castings.

France
Massey-Ferguson S.A.
Beauvais Plant (932,000 sq. ft.) – agricultural tractors, tractor components.
Marquette Plant (1,155,000 sq. ft.) – combines, balers, tractor cabs, components and grey iron castings.

Italy
Massey-Ferguson S.p.A.
Como Plant (115,000 sq. ft.) – tractor components.
Fabbrico Plant (380,000 sq. ft.) – agricultural wheel and crawler tractors.

Rhodesia
Rhoplow Limited
Bulawayo Plant (56,000 sq. ft.) – animal draft implements, hoes, peanut shellers.

South Africa
Massey-Ferguson (South Africa) Limited
Safim Manufacturing Limited
Vereeniging Plant (658,000 sq. ft.) – implements, tractor accessories and attachments, industrial loaders, transport systems.
Slattery Manufacturing (Proprietary) Limited
Potgietersrus Plant (216,000 sq. ft.) – harvesting machinery, implements, trailers.

United Kingdom
Massey-Ferguson (United Kingdom) Limited
Baginton Plant (312,000 sq. ft.) – tractor components.
Coventry Plant (1,517,700 sq. ft.) – agricultural and industrial tractors, axles, gearboxes, other components.
Kilmarnock Plant (789,000 sq. ft.) – combines, combine tables, tractor accessories.
Knowsley Plant (304,000 sq. ft.) – tractor-backhoe-loaders.
Manchester Plant (511,000 sq. ft.) – tractor loaders, tractor-backhoe-loaders, 4-wheel-drive agricultural tractors, tractor components.

United States
Massey-Ferguson Inc.
Des Moines Plant (570,000 sq. ft.) – 4-wheel-drive agricultural tractors, disc tillage implements, tractor-backhoe-loaders.
Detroit Locations
–*Southfield Plant (820,000 sq. ft.)* – agricultural and industrial tractors, tractor-backhoe-loaders.
–*Van Born Plant (497,000 sq. ft.)* – tractor transmission and axle assemblies, hydraulic and power steering pumps, tractor components.
–*West Chicago Street Plant (314,000 sq. ft.)* – tractor and combine transmission and axle components.
Badger Northland Inc.
Kaukauna Plant (267,000 sq. ft.) – Badger Northland forage and feeding equipment; solid and liquid manure disposal systems, manure spreaders.

West Germany
Massey-Ferguson GmbH
Eschwege Plant (587,000 sq. ft.) – roller chain, gearboxes, gears, hydraulic cylinders, combine axles, grey iron castings and other components.
Gebr. Eicher GmbH
Landau Plant (240,000 sq. ft.) – tractors and implements.

Construction Machinery

Brazil
Massey-Ferguson do Brasil S.A.
Sorocaba Plant (147,000 sq. ft.) – crawler tractors, tractor-backhoe-loaders.

Italy
Massey-Ferguson S.p.A.
Aprilia Plant (600,000 sq. ft.) – crawler tractors, hydraulic excavators.
Ravenna Plant (110,000 sq. ft.) – construction machinery components, hydraulic excavators.

West Germany
Massey-Ferguson-Hanomag Inc. & Co.
Hanover Plant (2,900,000 sq. ft.) – wheel loaders and dozers, crawler tractors, compactors, tractor components.

Engines

Australia
Perkins Engines Australia Pty. Ltd.
Dandenong Plant (16,000 sq. ft.) – industrial diesel engine assembly, engine reconditioning.

Brazil
Motores Perkins S.A.
Sao Bernardo Plant (259,000 sq. ft.) – diesel engines.
Sao Paulo (Alvarengas) Plant (48,000 sq. ft.) – diesel engines.
Progresso Metalfrit S.A.
Sao Paulo Foundry (97,000 sq. ft.) – grey iron castings.

France
Perkins Industries S.A.
Genainville Plant (30,000 sq. ft.) – agricultural diesel engine assembly, engine reconditioning.

United Kingdom
Perkins Engines Group Limited
Peterborough Locations
–*Eastfield Plant* (*1,828,000 sq. ft.*) – diesel and gasoline engines, engine reconditioning.
–*Fletton Plant* (*198,000 sq. ft.*) – diesel engines and engine components.
–*Walton Plant* (*166,000 sq. ft.*) – engine components.

United States
Perkins Diesel Corporation
Canton Plant (*587,000 sq. ft.*) – diesel engines.

Perkins Engines Inc.
Farmington Plant (*40,000 sq. ft.*) – diesel engine assembly.

Associate Companies and Per Cent Owned

Argentina
Perkins Argentina S.A.I.C. 30%
Cordoba Plant (*262,000 sq. ft.*) – diesel engines.

Brazil
Companhia Industrial de Peças para Automóveis 28%
Sao Paulo Plant (*196,000 sq. ft.*) – forgings.

Piratininga, Implementos Agricolas Ltda. 40%
Butia Plant (*65,000 sq. ft.*) – farm implements.

India
Tractors and Farm Equipment Limited 49%
Madras Plant (*193,000 sq. ft.*) – tractors and implements.

Italy
Simmel S.p.A. 33%
Castelfranco Veneto Plant (*380,000 sq. ft.*) – crawler tractor components.

Libya
Libyan Tractor Company 33⅓%
Ta Joura (*Tripoli*) *Plant* (*118,400 sq. ft.*) – tractors (under development).

Malawi
Agrimal (Malawi) Limited 20%
Blantyre Plant (*12,000 sq. ft.*) – hoes, animal draft equipment.

Mexico
Massey-Ferguson de Mexico S.A. 49%
Queretaro Plant (*145,000 sq. ft.*) – tractors.
Naucalpan de Juarez Plant (*58,000 sq. ft.*) – farm implements.

Motores Perkins S.A. 24%
Toluca Plant (*153,000 sq. ft.*) – diesel engines.

Morocco
Compagnie Maghrebine de Materiels Agricoles et Industriels S.A. 24%
Casablanca Plant (*54,000 sq. ft.*) – tractors.

Peru
Tractores Andinos S.A. 49%
Trujillo Plant (*70,000 sq. ft.*) – tractors.

Motores Diesel Andinos S.A. 24%
Trujillo Plant (*109,000 sq. ft.*) – diesel engines.

Spain
Motor Iberica S.A. 29%
Barcelona Locations
–*Lopez Varela Plant* (*406,000 sq. ft.*) – tractor components.
–*Zona Franca Plant* (*779,000 sq. ft.*) – trucks and tractors.
–*Montcada Plant* (*196,000 sq. ft.*) – sheet-metal components.

Madrid Locations
–*Avda. Aragon Plant* (*109,000 sq. ft.*) – diesel engine components.
–*Cuatro Vientos Plant* (*726,000 sq. ft.*) – diesel engines and trucks.

Other Locations
–*Corrales de Buelna Plant* (*207,000 sq. ft.*) – tractors and engine components.
–*Corrales de Buelna Foundry* (*528,000 sq. ft.*) – castings.
–*Noain Plant* (*187,000 sq. ft.*) – combines, balers, cornheads.
–*Ejea Plant* (*97,000 sq. ft.*) – farm implements.
–*Tauste Plant* (*16,000 sq. ft.*) – farm implements.

Other Massey-Ferguson and Perkins Companies

Canada
Perkins Engines Canada Limited
Rexdale

France
Moteurs Perkins S.A.
Saint-Denis

Italy
Motori Perkins S.p.A.
Como

South Africa
Perkins Engines (Proprietary) Limited
Johannesburg

United Kingdom
Massey-Ferguson (Export) Limited
Coventry

Massey-Ferguson-Perkins Limited
London

Perkins Engines Limited
Peterborough

West Germany
Perkins Motoren GmbH
Kleinostheim

Licensee Locations

Farm and Industrial Machinery: Greece, India, Iran, Japan, Kenya, Malaysia, Pakistan, Poland, Portugal, Thailand, Turkey, Uruguay

Construction Machinery: India

Engines: Greece, India, Iran, Pakistan, Poland, Republic of Korea, Turkey, Uruguay, Yugoslavia

Directors' Affiliations

Conrad M. Black
Chairman of the Board of Directors Massey-Ferguson Limited
President and Chairman Executive Committee – Argus Corporation Limited, Toronto, Canada.
Honorary Chairman – Sterling Newspapers Ltd.; Toronto Advisory Board, Crown Trust Company.
Director – CAE Industries Ltd.; Canadian Imperial Bank of Commerce; Carling O'Keefe Ltd.; Confederation Life Insurance Company; Eatons of Canada Ltd.

Albert A. Thornbrough
Deputy Chairman of the Board of Directors and Chief Executive Officer Massey-Ferguson Limited
Director and Member Executive Committee – Canadian Imperial Bank of Commerce, Toronto, Canada.
Director – Argus Corporation Limited.

The Marquess of Abergavenny
Chancellor of the Most Noble Order of the Garter.
Director – Lloyds Bank Limited; Lloyds Bank Property Company Ltd.; Nuffield Nursing Homes Management Ltd.; Whitbread Investment Company Ltd., United Kingdom.
Her Majesty's Representative at Ascot, Lord Lieutenant for the County of East Sussex, Trustee – Royal Agricultural Society of England.

Ralph M. Barford
President – Valleydene Corporation Limited, Toronto, Canada.
Chairman – GSW Limited; Canadian Appliance Manufacturing Co. Ltd.,
Director – Thiokol Canada Ltd.; Union Gas Limited; National Trust Company Limited; Canadian General Investments Ltd.; Harding Carpets Limited.

G. Montegu Black
Executive Vice President – Dominion Securities Limited, Toronto, Canada.
Chairman – Standard Broadcasting Corporation Limited.
Director – Argus Corporation Limited; Dominion Stores Limited; Toronto-Dominion Bank; Hollinger Mines Limited; Labrador Mining & Exploration Co. Ltd.

Dixon S. Chant
Executive Vice President – Argus Corporation Limited.
Director – VS Services Limited; Fiberglas Canada Limited; Fireman's Fund Insurance Company of Canada Limited; Crown Trust Company; Dominion Stores Limited; Standard Broadcasting Corporation Limited; General Bakeries Limited.

Fredrik S. Eaton
Chairman, President and Chief Executive Officer – The T. Eaton Co. Limited, Toronto, Canada.
President – Eaton's of Canada Limited.
Director – Telegram Corporation Limited; Baton Broadcasting Incorporated; CFQC Broadcasting Limited; Inland Publishing Company; C. F. Haughton Limited; Argus Corporation Limited.

Gilbert W. Humphrey
Chairman – The Hanna Mining Company, Cleveland, U.S.A.
Chairman, Executive Committee – National Steel Corporation.
Director – General Reinsurance Corporation; National City Corporation; Sun Life Assurance Company of Canada; Federated Department Stores, Inc.; Scott Paper Co.

H. N. R. Jackman
Chairman – The Empire Life Insurance Company; Economic Investment Trust Limited, Toronto, Canada.
Vice-Chairman—The Dominion of Canada General Insurance Company Limited; Victoria and Grey Trust Company.
Vice-President, Director and Member Executive Committee – Argus Corporation Limited; Algoma Central Railway Ltd.; Standard Broadcasting Corporation Limited.
Director – United Corporations Limited; Provigo Inc.

John D. Leitch
President – Upper Lakes Shipping Ltd., Leitch Transport Ltd., Toronto, Canada.
Director and Vice President – Canadian Imperial Bank of Commerce.
Director – Dominion Foundries and Steel Ltd.; Canada Life Assurance Company; American Airlines Inc.; Canadian Oxygen Limited; Petrofina Canada Ltd.

A. Bruce Matthews
Chairman – Dome Mines Ltd.; Dominion Stores Limited, Toronto, Canada.
Director – Standard Broadcasting Corporation Limited; The Excelsior Life Insurance Company; Canada Permanent Trust Company; Canada Permanent Mortgage Corporation; Dome Petroleum Ltd.; Aetna Life Insurance & Casualty Company.

F. David Radler
President – Sterling Newspapers Ltd., Vancouver;
Dominion Malting Limited, Winnipeg. Canada.
Director – British Columbia Development Corporation; Trident Aircraft Ltd.; Crown Trust Company.

Victor A. Rice
President and Chief Operating Officer Massey-Ferguson Limited

A. M. Runciman
President – United Grain Growers Limited, Winnipeg, Canada.
Director – The Great-West Life Assurance Company; Canadian Pacific Limited; The Royal Bank of Canada.
Honorary Member – Agricultural Institute of Canada;
Manitoba Institute of Agrologists;
Canadian Seed Trade Association;
Canadian Seed Growers Association.

J. Page R. Wadsworth
Chairman – Confederation Life Insurance Company, Toronto, Canada.
Director – Canadian Imperial Bank of Commerce; MacMillan Bloedel Limited; Holt Renfrew & Co. Ltd.; F. W. Woolworth Co. Ltd.; Campbell Soup Company, Camden, New Jersey.

Trumbull Warren
Chairman, President and Director – Rheem Canada Limited, Hamilton, Canada.
Chairman and Director – Phoenix Assurance Company of Canada;
Acadia Life Assurance Co.
Director – Argus Corporation Limited; General Bakeries Ltd.; Hendrie & Co.
Member – Hamilton Advisory Board, The Royal Trust Co.

Colin W. Webster
Chairman – St. Lawrence Stevedoring Co. Ltd.; International Paints (Canada) Ltd.
Vice-Chairman – Canadian Fuel Marketers Ltd.
President – Stadacona Investments Canada Ltd., Montreal, Canada.
Director – Canadian Liquid Air Ltd.; Pacific Petroleums Ltd.;
St. Lawrence Cement Company.
Governor Emeritus – McGill University.

The Duke of Wellington
Director – Motor Iberica S.A., Spain
Bodegas Internacionale, Spain; Michael Druitt Wines Ltd., United Kingdom.
Governor – Wellington College, United Kingdom.
Colonel-in-Chief –
The Duke of Wellington's Regiment.
Hon. Colonel – 2nd Bn.
The Wessex Regiment (V).
Deputy Lieutenant for the County of Hampshire.
Council Member – Royal Agricultural Society of England.

Transfer Agents and Registrars

Common Shares

Transfer Agents

National Trust Company, Limited, Toronto, Winnipeg, Calgary, Vancouver

Canada Permanent Trust Company, Montreal

The Canadian Bank of Commerce Trust Company, New York

Canadian Imperial Bank of Commerce, London, England

Registrars

Crown Trust Company, Toronto, Montreal, Winnipeg, Calgary, Vancouver

Morgan Guaranty Trust Company of New York, New York

Hill Samuel & Co. Ltd., London, England

Stock Exchanges

The common shares of Massey-Ferguson Limited are listed on the Toronto, Montreal and Vancouver Stock Exchanges in Canada, on the New York Stock Exchange in the United States and on the London Stock Exchange in England.

These shares have unlisted trading privileges in the United States on the Midwest Stock Exchange in Chicago, the PBW Stock Exchange, the Boston Stock Exchange and the Pacific Coast Stock Exchange. The shares are also traded on the Amsterdam Stock Exchange in the form of Dutch Bearer Certificates.

Preferred Shares

Transfer Agents

Crown Trust Company, Toronto, Montreal, Winnipeg, Calgary, Vancouver

Canada Permanent Trust Company, Regina

Registrar

The Canada Trust Company, Toronto, Montreal, Winnipeg, Calgary, Vancouver

Stock Exchanges

The preferred shares of Massey-Ferguson Limited are listed only on the Toronto, Montreal and Vancouver Stock Exchanges in Canada.

Printed in Canada

Massey-Ferguson Limited

200 University Avenue
Toronto, Ontario, Canada
M5H 3E4

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of MASSEY-FERGUSON LIMITED will be held in the Canadian Room, Royal York Hotel, Front Street West, in the City of Toronto, in the Province of Ontario, Canada, on Thursday, the 9th day of March, 1978, at the hour of 12:00 o' clock noon (Toronto time), for the following purposes:

(1) To receive the consolidated financial statements of the Company and its subsidiaries for the fiscal year ended October 31, 1977 together with the reports of the directors and auditors thereon;

(2) To elect directors;

(3) To appoint auditors and to authorize the directors to fix the remuneration of the auditors;

(4) To transact such further or other business as may properly be brought before the meeting or any adjournment or adjournments thereof.

DATED at Toronto this 27th day of January, 1978.

BY ORDER OF THE BOARD

D.C. Hayes

Secretary.

Shareholders may exercise their rights by attending the meeting or by completing a form of proxy. Should you be unable to attend the meeting in person, kindly date and sign the enclosed form of proxy and return it in the envelope provided at your earliest convenience. Your shares will be voted in accordance with your instructions as indicated on the proxy.

Massey-Ferguson Limited

PROXY STATEMENT AND INFORMATION CIRCULAR

(First mailed to Shareholders on or about January 27, 1978)

PERSONS MAKING THE SOLICITATION

The accompanying proxy is being solicited by the management of Massey-Ferguson Limited (hereinafter called the "Company") for use at the annual meeting of shareholders of the Company to be held on Thursday, March 9, 1978 at 12:00 o'clock noon (Toronto time) in the Canadian Room of the Royal York Hotel, Front Street West, Toronto, Canada, for the purposes set forth in the foregoing notice of meeting, and at any adjournment or adjournments thereof. The total cost of solicitation of proxies will be borne by the Company. The solicitation will be made primarily by mail. However, employees of the Company may also solicit proxies by telephone or telegram and banks, brokerage houses and other custodians, nominees or fiduciaries will be requested to forward soliciting material to their principals and to obtain authorizations for the execution of proxies. The principal executive offices and the head office of the Company are at 200 University Avenue, Toronto, Canada M5H 3E4.

APPOINTMENT AND REVOCATION OF PROXIES

A shareholder has the right to appoint a person to act as proxy at the meeting, other than one of the persons named in the accompanying form of proxy. To exercise this right the shareholder should draw a line through the printed names and insert the name of the shareholder's nominee in the space provided.

Pursuant to applicable Canadian law, a shareholder who executes and returns the accompanying form of proxy may revoke it at any time before it is exercised. This may be done by an instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized and deposited either at the head office of the Company at any time up to and including the last business day preceding the day of the meeting or any adjournment thereof, at which the proxy is to be used, or with the Chairman of such meeting on the day of the meeting or any adjournment thereof. If a shareholder who has completed a proxy attends the meeting in person, any votes cast by the shareholder shall be counted and the proxy shall be disregarded.

RECORD DATE

The directors have fixed the close of business on Thursday, February 9, 1978 as the record date for the determination of the shareholders entitled to receive notice of, and to attend and vote at the above mentioned annual meeting of shareholders.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

On December 31, 1977 there were 18,250,350 common shares without nominal or par value of the Company outstanding. Each such common share of the Company is entitled to one vote. A quorum for the transaction of business at the meeting (other than adjournment) is at least two persons present in person and entitled to vote thereat and holding or representing by proxy not less than 15% of the issued common shares of the Company. The holders of preferred shares of the Company are not entitled to vote at the meeting.

As of December 31, 1977, the only beneficial owner of more than 5% of any class of the Company's voting securities, known to the Company, was:

Title of Class	Name and Address of Beneficial Owner	Amount of Voting Securities Beneficially Owned	Per Cent of Class
Common shares	Argus Corporation Limited 10 Toronto Street Toronto, Canada (closed-end investment company)	3,000,000	16.44% of the outstanding common shares

To the knowledge of the Company no person or group other than Argus Corporation Limited is the beneficial owner of more than 5% of the outstanding common shares of the Company.

Messrs. Barron, Jackman, Matthews, McDougald, Meighen, Thornbrough and Warren, who are directors of the Company, are also directors and/or officers and shareholders of Argus Corporation Limited and, as such, were in a position (through direct ownership and through ownership by entities in which some of them have a substantial interest) to vote stock representing approximately 70.4% of the voting stock of Argus Corporation Limited. At December 31, 1977 these individuals owned beneficially, directly or indirectly, an aggregate of 209,915 common shares of the Company or 1.15% of such common shares outstanding which, together with the 16.44% owned by Argus Corporation Limited, represents 17.59% of the common shares of the Company outstanding.

As of December 31, 1977 all directors and officers of the Company as a group were the beneficial owners of the following voting securities of the Company.

Title of Class	Amount of Voting Securities Beneficially Owned	Per Cent of Class
Common shares	406,766	2.23%

It is not intended to use the accompanying form of proxy for the purpose of voting upon the consolidated financial statements of the Company and its consolidated subsidiaries for the year ended October 31, 1977, and the reports of the directors and auditors thereon.

ELECTION OF DIRECTORS

The Board consists of 18 directors who are elected annually. Unless authority to vote is withheld, shares represented by properly executed proxies in favour of the persons designated in the enclosed form of proxy will be voted for the election of the nominees named below.

The term of office for each director is from the date of the meeting at which he is elected until the annual meeting next following or until his successor is elected or appointed. In the event that prior to the annual meeting any vacancies occur in the slate of nominees submitted herewith it is intended that discretionary authority shall be granted to vote shareholders' proxies for the election of any other person or persons as directors. The management is not presently aware that any nominee as set out below would be unwilling to serve as a director if elected.

INFORMATION CONCERNING NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

The following table sets out the name of each of the persons proposed to be nominated for election as a director; all other positions and offices, if any, now held by him with the Company; his principal occupation; the year in which he first became a director; and the number of common shares of the Company that he has advised the Company are beneficially owned by him, directly or indirectly, as of December 31, 1977.

Name	Other positions and offices with the Company now held	Principal Occupation	Director Since	Common Shares	
THE MOST HONOURABLE THE MARQUESS OF ABERGAVENNY, K.G.	Nil	Landowner and farmer, England	1957	1300	
ALEX E. BARRON	Member of the Executive Committee	Chairman of the Board, Canadian Tire Corporation Limited, Toronto (Retail stores, automotive parts - hardware - sporting goods)	1973	2,250	
CHARLES L. GUNDY	Nil	Chairman, Wood Gundy Limited, Toronto (Investment dealer)	1951	75,200	
GILBERT W. HUMPHREY	Nil	Chairman, The Hanna Mining Company, Cleveland, Ohio (Mining company)	1964	120	
H.N.R. JACKMAN	Nil	Chairman of The Empire Life Insurance Company Limited, Toronto (Insurance company)	1978	100	(A)
JOHN D. LEITCH	Nil	President, Upper Lakes Shipping Ltd., Toronto (Shipping company)	1962	34,134	
A. BRUCE MATTHEWS, C.B.E., D.S.O., E.D., C.D.	Member of the Executive Committee and Chairman of the Audit Committee	Executive Vice President, Argus Corporation Limited, Toronto (Closed - end investment company)	1965	1,200	(C)
JOHN A. McDOUGALD	Chairman of the Board of Directors and Executive Committee	Chairman and President, Argus Corporation Limited, Toronto (Closed - end investment company)	1949	120,000	(C)
M.C.G. MEIGHEN, O.B.E.	Member of the Executive Committee	Chairman, Canadian General Investments Limited, Toronto (Closed - end investment company)	1964	23,000	(C)

Name	Other positions and offices with the Company now held	Principal Occupation	Director Since	Common Shares	
JOHN E. MITCHELL	Executive Vice President Americas Region	Executive Vice President Americas Region of the Company	1971	15,000	(C)
W.K. MOUNFIELD	Corporate Vice President Administration	Corporate Vice President Administration of the Company		1,000	(B) (C)
A.M. RUNCIMAN	Nil	President, United Grain Growers Ltd., Winnipeg, Manitoba (Grain handling and marketing)	1975	100	
J.G. STAIGER	Senior Corporate Vice President and Member of the Audit Committee	Senior Corporate Vice President of the Company	1969	11,441	(C)
A.A. THORNBROUGH	Deputy Chairman, President and Chief Executive Officer and Member of the Executive Committee	Deputy Chairman of the Board of Directors, President and Chief Executive Officer of the Company	1956	60,165	(C)
J. PAGE R. WADSWORTH	Nil	Chairman of Confederation Life Insurance Company, Toronto (Insurance company)	1977	500	
TRUMBULL WARREN, O.B.E.	Member of the Audit Committee	Chairman and President, Rheem Canada Limited, Hamilton, Ontario (Manufacturers of steel shipping containers and water heaters)	1975	3,300	(C)
COLIN W. WEBSTER	Member of the Executive Committee	Vice Chairman, Canadian Fuel Marketers Ltd., Montreal, Quebec (Fuel oil distributors)	1938	41,500	
THE DUKE OF WELLINGTON, M.V.O., O.B.E., M.C.	Nil	Landowner and farmer, England Scotland, Spain and Belgium	1972	401	

Note: (A) Mr. H.N.R. Jackman has been Chairman of the Board of Directors of The Empire Life Insurance Company Limited, Toronto, Ontario, since February 26, 1970. He is also Chairman of The Economic Investment Trust Limited, Vice Chairman of The Dominion of Canada General Insurance Company Limited and Victoria and Grey Trust Company, and a director and member of the Executive Committee of Argus Corporation Limited and Algoma Central Railway Limited. Mr. Jackman was appointed a Director of the Company at the meeting of the Board of Directors held January 5, 1978.

Note: (B) Mr. W.K. Mounfield was appointed Corporate Vice President Administration of the Company on November 1, 1977. Prior to that date he had been President of Massey-Ferguson Industries Limited since January 25, 1973, and before that date he had been Secretary of the Company since January 1, 1972. Mr. Mounfield has been nominated to fill the vacancy that will be created by Mr. Henry Borden not standing for re-election at the annual meeting.

Note: (C) The following nominees hold major positions and offices with the Company's significant affiliates:

J.A. McDougald	Director, Massey-Ferguson Holdings (Australia) Limited; Massey-Ferguson (Australia) Limited; Massey-Ferguson Holdings Limited.
A. Bruce Matthews	Director, Massey-Ferguson Finance Company of Canada Limited; Massey-Ferguson Holdings Limited.
A.A. Thornbrough	Chairman and Director, Massey-Ferguson Inc; Director, Massey-Ferguson Credit Corporation; Massey-Ferguson Holdings Limited; Massey-Ferguson (South Africa) Limited; Massey-Ferguson Finance Company of Canada Limited.
M.C.G. Meighen	Director, Massey-Ferguson Holdings Limited.
Trumbull Warren	Director, Massey-Ferguson Finance Company of Canada Limited.
J.E. Mitchell	President and Director, Massey-Ferguson Inc; Director, Massey-Ferguson Finance Company of Canada Limited; Massey-Ferguson Credit Corporation.
J.G. Staiger	President and Director, Massey-Ferguson Credit Corporation; Director, Massey-Ferguson Inc; Massey-Ferguson (South Africa) Limited.
W.K. Mounfield	Chairman and Director, Massey-Ferguson Industries Limited; Director, Massey-Ferguson Finance Company of Canada Limited.

REMUNERATION OF OFFICERS AND DIRECTORS

The following table sets forth the aggregate direct remuneration and retirement data for the fiscal year ended October 31, 1977 for each person who was a director at any time during such fiscal year and whose aggregate direct remuneration during the period he was a director exceeded $40,000, and for each of the three highest paid officers of the Company and for all directors as a group and for all officers as a group.

Name of Individual or Identity of Group	Aggregate Direct Remuneration	Estimated Annual Benefits upon Retirement
	(Expressed in U.S. Dollars)*	
A.A. Thornbrough Deputy Chairman, President, Chief Executive Officer and Director	$371,538	$109,078
J.E. Mitchell Executive Vice President and Director	$265,141	$110,596
J.G. Staiger Senior Corporate Vice President and Director	$191,264	$64,117
All Directors and Officers as a group (32 persons)	$2,172,218	$912,670
All Directors as a group (18 persons) including 4 who are also officers	$913,073	$305,721
All Officers as a group (18 persons) including 4 who are also directors	$2,089,944	$890,740

*(Average exchange rate during fiscal 1977 – $1 Canadian = $ 0.925 U.S.)

The aggregate cost to the Company of all pension benefits proposed to be paid to the directors and officers of the Company in the event of the continuation of service until retirement is estimated to be $110,054 for the year ended Oct. 31, 1977.

EXECUTIVE INCENTIVE ARRANGEMENT

On March 6, 1975, the Company instituted an incentive arrangement for certain key executives of the Company based on a formula related to the market performance of the Company's common shares. At any time between the second and fifth anniversary of his date of participation in the arrangement a participant may elect to receive a supplementary compensation payment. On the basis of the formula the payment will be equal to the amount by which the market value of a common share on the date of election exceeds an initial market value per share, multiplied by all or part (as the executive may elect) of the number of units of participation granted to such executive. For the purposes of the incentive arrangement the initial market value is 90 per cent of the mid-point between the high and low prices per share of board lots of the Company's common shares on the Toronto Stock Exchange on a chosen date.

On May 9, 1975, twelve officers were granted a total of 97,120 units of participation (including A.A. Thornbrough 25,375 units, J.E. Mitchell 12,000 units and J.G. Staiger 8,750 units), all based on an initial market value of $14.01 per common share. During the 1977 fiscal year two officers elected to receive supplementary compensation payments in the amount of $93,378 under the incentive arrangement so that as of October 31, 1977 officers of the Company held a total of 86,110 units of participation. Since May 9, 1975 no units have been granted to officers or directors of the Company, but two executives who had been granted a total of 1000 units of participation in 1975 have since then been appointed officers of the Company.

LOANS TO OFFICERS

Since November 1, 1976 the following loans have been outstanding to officers and were made for the purpose of assisting them to purchase residences:

	Largest aggregate amount outstanding at any time during the period November 1, 1976 to October 31, 1977	Aggregate amount outstanding as at December 31, 1977
V.A. RICE Corporate Vice President Staff Operations	$144,000	$138,000
V. KOURY Assistant Treasurer	$ 25,600	$ 24,448

In the case of Messrs. Rice and Koury, an imputed benefit comprising interest they would have otherwise had to pay has been included in their aggregate direct remuneration for the fiscal year ended October 31, 1977.

Loans to officers are repayable on demand without interest and are secured by mortgages on the residential properties in connection with which they were made. The Company requires repayment in equal annual instalments over a 25-year period and repayment in full on the termination of the officer's employment or on sale of the property. An officer may repay a loan at any time. The making of loans to employees to assist in the purchase of residences is expressly provided for in the Canada Corporations Act.

APPOINTMENT OF AUDITORS

Unless contrary instructions are received, shares represented by properly executed proxies in favour of the persons designated in the enclosed form of proxy will be voted for the re-appointment of Clarkson, Gordon & Co., as independent auditors of the Company to hold office until the next annual meeting of shareholders and to authorize the directors to fix the remuneration of such auditors. To the knowledge of the Company, neither Clarkson, Gordon & Co. nor any of its partners have any direct or indirect financial interest in the Company or any of its subsidiaries. A representative of Clarkson, Gordon & Co. is expected to be present at the annual meeting and will have an opportunity to make a statement if he desires to do so, and to answer appropriate questions by shareholders.

The Audit Committee of the Board of Directors is composed of the following directors: Mr. A. Bruce Matthews - Chairman and Messrs. J. G. Staiger and Trumbull Warren.

FORM 8-K REPORT

In the Spring of 1977, under the guidance of senior management, and later the Audit Committee of the Board of Directors of Massey-Ferguson Limited ("Company"), an investigation was commenced with respect to possible practices and payments by the Company and its subsidiaries in categories which might be considered to be questionable. As a result of that investigation a report on Form 8-K was filed with the Securities and Exchange Commission in the United States of America on December 23, 1977, and an amended report was filed in January, 1978. Details of the 8-K filing have been sent to all shareholders together with the Company's Annual Report for 1977. Attention is drawn to the section dealing with the "Company Policy on Standards of Business Conduct". It is the Company's intention to eliminate all overbilling practices as promptly as possible and in any event no later than the end of the Company's current fiscal year. As set forth in paragraph 7 of such Company Policy, "payments in nominal amounts to minor foreign (i.e., non-Canadian and non-U.S.), government employees to facilitate the obtaining of services to which the Company is entitled may be continued to the extent such payments are in accordance with custom and established practice in the country involved, and are judged to be necessary in order to avoid obstruction or unreasonable delay." In the opinion of the Company, all other questionable payments and practices of the Company and any of its subsidiaries have been eliminated.

OTHER MATTERS

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting. At the date of this proxy statement and information circular the management of the Company knows of no such amendments, variations or other matters to come before the meeting.

This proxy statement and the enclosed form of proxy, and the sending thereof to the common shareholders of the Company have been approved by the Board of Directors of the Company.

Dated at Toronto, Ontario, Canada, January 27, 1978.

BY ORDER OF THE BOARD OF DIRECTORS.

D.C. Hayes

Secretary.

A copy of the Company's 10-K report as filed with the United States Securities and Exchange Commission will be sent to shareholders upon written request to the Company Secretary.

Printed in Canada

Massey-Ferguson Limited

To the Shareholders:

Report to United States Securities and Exchange Commission

On December 23, 1977, the Company filed an 8-K report with the Securities and Exchange Commission. An amended report was filed in January, 1978. The report dealt with the subject of "questionable payments".

The Company's 8-K filing with the SEC was voluntary and follows the practice of U.S. corporations, including our major competitors. Massey-Ferguson is one of the few Canadian companies registered with the SEC. There is no provision or requirement for similar filings with securities commissions in Canada.

In the opinion of the Company, the information in the 8-K report was not material relative to the Company's operations nor was any action disclosed which is illegal in Canada or the United States or in any of the countries in which Massey-Ferguson has operating facilities.

Details of the 8-K filing, including a statement of Company Policy on Standards of Business Conduct, are as follows:

In the Spring of 1977, under the guidance of senior management, and later the Audit Committee of the Board of Directors of Massey-Ferguson Limited ("Company"), an investigation was commenced with respect to possible practices and payments by the Company and its subsidiaries in categories which might be considered to be questionable.

The Company is a holding company located in Toronto, Canada; its operations are located in subsidiaries throughout the world. Wherever the word "year" is used herein, it refers to the Company's fiscal year ending October 31. When the word "foreign" is used it refers to countries other than Canada and the United States.

The investigation, which covered the five-year period ended October 31, 1977, was conducted by the Company's Assistant Comptroller-Audit with the assistance of the Company's Legal Services Director-Corporate. The investigation involved extensive interviews with and questioning of officers and employees and examination of records at many locations throughout the world. At the conclusion of the investigation, the findings were reported by the Assistant Comptroller-Audit to the Audit Committee and subsequently by the Audit Committee to the Board of Directors.

The findings are summarized as follows:

1. The investigation disclosed no instances of slush funds or illegal political contributions in any country nor of legal political contributions in an amount which might be expected to result in any special governmental consideration for the interest of the Company or a subsidiary. In addition, except to the extent specifically noted in paragraph 6 hereof, no cases were found where receipts or payments had been improperly recorded in the books of the Company or any subsidiary.

The Directors and corporate officers of the Company ("Senior Management") were not, prior to the investigation, aware of the events set forth herein except as to those matters where such knowledge is specifically described.

2. No instances were found of payments to government officials to obtain special consideration for the interests of the Company or any of its subsidiaries, with the following two exceptions:

(i) In each of the years 1973 and 1974, a foreign government official who was instrumental in having his government place orders with one of the Company's subsidiaries (amounting to approximately \$789,000 in 1973 and \$1,511,000 in 1974), was paid approximately \$12,000 in cash. These payments were made out of general funds of the subsidiary without receipts being obtained and were recorded on the subsidiary's books as miscellaneous expenses and, at the direction of the official, were paid outside his own country. The payments were legal in the country in which the Company's subsidiary operated and in the country in which the payments were made. The Company does not know whether such payments were illegal under the laws of the country in which the foreign official was resident or the reasons for directing that payments be made outside such country, but believes that the reasons may have been to evade or violate legal requirements and/or detection by local authority in such country. One member of Senior Management was aware of this transaction.

(ii) Cases may have existed where nominal amounts may have been paid to minor foreign government employees to facilitate the obtaining of services to which the Company was entitled. Since any such nominal amounts would have been included as a sundry item in the employee's expense report, it has not been possible to quantify the total amounts.

3. Courtesy gifts of modest value have been made to, or exchanged with, some government officials, bankers and others with whom the Company's subsidiaries conduct business. In 1977, these gifts aggregated approximately \$46,000 in value and covered approximately 1,500 gifts (\$31 per average gift). The three largest gifts were \$724 (silver plate), \$390 (clock) and \$200 (music box). These gifts were recorded as such in the subsidiaries' books. In the opinion of the Company the giving of such gifts is a normal expression of courtesy or regard and does not constitute a questionable practice. The Company will continue to give such gifts in appropriate situations.

4. Three instances were found in which sales commissions, so recorded on the books, were paid by certain of the Company's foreign subsidiaries in connection with sales resulting from competitive tenders in circumstances that raised questions as to whether the commission or some portion thereof may have been remitted ultimately to one or more government officials or to other parties who might influence the tender awards. These commissions were paid, respectively, to a non-governmental publicly owned company, to a non-governmental distributor of the Company, and to a non-governmental individual who was a former distributor of the Company; the recipients represented that they would be able to be of assistance in obtaining the sales for the Company's subsidiaries. The commissions involved in these transactions aggregated \$2.4 million and the related net sales aggregated \$12.6 million, and the commissions making up such aggregate were higher than commissions normally paid by the Company. The Company does not have evidence in any of these instances that any commission or portion thereof was in fact remitted to government officials, or other parties, or was used to make any illegal payment. At least three members of Senior Management were aware that one or more of such sales commissions were being paid.

5. Prior to 1974, a foreign corporation ("manufacturer") in which the Company has a minority interest, under normal contractual provisions in a marketing agreement, paid a commission to one of the Company's foreign subsidiaries for such subsidiary's work as agent for the sale of the manufacturer's products throughout the world. Commencing in 1974, the commission was reduced. The manufacturer, however, continued to pay commissions at the original rate. The difference amounted to \$195,000 for 1974, and of this \$88,000 was subsequently paid to the shareholders of the manufacturer. The remainder was returned to the manufacturer. In 1975, the difference amounted to \$197,000 of which \$119,000 was paid through the subsidiary to the manufacturer's shareholders and \$78,000 to a bank account of the manufacturer outside the country where the manufacturer was located. On the Company's initiative, this practice ended with the 1975 year. The above-described transactions may have aided in avoiding, or involved the manufacturer in violation of, certain foreign taxes and foreign exchange controls. The receipt of such funds by the foreign subsidiary was recorded as miscellaneous income and the payments by the subsidiary were charged to the same account.

6. In making what the Company considers to have been proper and appropriate allocations of revenues and expenses among certain of the Company's subsidiaries, the Company overbilled or underbilled other subsidiaries of the Company in order to transfer funds, the transferability of which might otherwise have been restricted or been subject to delays under foreign controls such as price controls, local content regulations, foreign exchange regulations, tax and banking regulations. The following situations were found (with one or more members of Senior Management having been aware of the situation set out in paragraphs (i), (iii) and (v) below):

(i) In 1975 one subsidiary billed and collected from another subsidiary for certain air freight shipments. Under Company rules, the shipping subsidiary should have absorbed the excess cost of air freight over sea freight which amounted to approximately \$250,000. Instead of refunding such excess cost, the funds were retained by the shipping subsidiary and used by it to pay expenses of the receiving subsidiary for which the receiving subsidiary was experiencing difficulty in obtaining foreign exchange clearances.

(ii) In 1977 one subsidiary undertook to reimburse certain of its distributors for airfare incurred by them in attending a tractor demonstration. The fares involved aggregated approximately $12,000. Upon learning that it would take many months to obtain the necessary foreign exchange approvals to pay the fares, a second subsidiary paid them out of funds owed to the first subsidiary.

(iii) Prior to 1977, volume rebates of approximately $600,000 annually were received on certain components by one subsidiary which retained such rebates and so recorded them on its books. The rebates related to world-wide purchases of such components by several subsidiaries. Commencing in 1977, the rebate has been apportioned among the subsidiaries on the basis of actual purchases by them.

(iv) One subsidiary owed its distributors approximately $400,000 for commissions, warranty claims, etc., which has been accruing since 1971 but which had not been paid due to the subsidiary's inability to obtain necessary foreign exchange permits. In 1977, a second subsidiary paid the amounts owing (the largest single payment being $82,400), in return for which the first subsidiary paid expenses incurred by the second subsidiary in the country of the first subsidiary.

(v) During the five-year period ended October 31, 1977, one subsidiary underbilled another subsidiary by $2,145,000 for components sold to it for local assembly. This was done in order to improve the domestically produced percentage of the end product. The underbilled amount was recovered by withholding amounts otherwise due to the purchasing subsidiary. This practice has now been stopped.

(vi) During 1972 through 1975, one subsidiary failed to record commissions aggregating approximatly $296,000 owed to it by two other subsidiaries. The two other subsidiaries paid an aggregate amount equal to the unrecorded commissions to the Company and other subsidiaries to pay expenses owed to them by the first subsidiary.

(vii) In 1974 a corporation in which the Company owns a minority interest sold goods to a subsidiary but was unable to collect $280,000 of the purchase price because of exchange control regulations in the subsidiary's country. In 1975 this corporation sold goods to a second subsidiary and thereafter was unable to pay $84,000 to such subsidiary on a defective parts claim because of such corporation's own exchange control problems. By means of special discounts, the second subsidiary paid such corporation $196,000 (representing the net of the amount such corporation was owed by the first subsidiary and the amount such corporation owed to the second subsidiary). To compensate the second subsidiary for making such payment on its behalf, the first subsidiary commenced to underbill the second subsidiary for products shipped. After $100,000 had been underbilled, this practice was discontinued.

The recording of the foregoing transactions in the books of the Company and its subsidiaries in the manner indicated had no material effect on the financial statements of the subsidiaries concerned or on the Company's consolidated financial statements.

7. The Company's sales into countries in which it does not have manufacturing operations are, with minor exceptions, made to distributors located in such countries. At the request of some distributors, subsidiaries supplying such distributors have raised the sales price of goods sold to them and arranged for the settlement of the amount of the overpayment according to the distributors' directions. In some cases the overbilled amount is remitted to the distributor in the country where he operates, but in the majority of cases payment is made in another country to or upon the order of the distributor. The possibility exists that these arrangements may serve a purpose of a distributor which is illegal in the country where the distributor operates. Certain invoices and related documents delivered in connection with such sales contain certifications which are required by the law of the distributor's country and which, in some cases, were inaccurate because they did not reveal the agreement to remit the overbilled amount.

The investigation disclosed that over the five-year period ended October 31, 1977, sales involving overbillings took place in connection with the following percentage of the Company's consolidated net sales:

1973—3.8% 1974—3.5% 1975—3.6% 1976—3.3% 1977—4.4%

In each of these years the total amount of overbillings and their relationship to Company sales were as follows:

Total Overbilled	Relationship To Affected Sales	Relationship to Total Sales
1973—$4.4 million	7.7%	29/100 of 1%
1974—$5.3 million	8.6%	30/100 of 1%
1975—$7.2 million	7.9%	29/100 of 1%
1976—$6.1 million	6.6%	22/100 of 1%
1977—$7.2 million	6.0%	26/100 of 1%

In all cases the amounts overbilled were netted against sales revenue in the Company's consolidated statements of income. Consequently, no distortion of the figures for consolidated net sales took place.

Members of Senior Management, other than outside Directors, were generally aware of the overbilling practices.

* * * *

In addition to the foregoing, it has come to the Company's attention that a foreign corporation in which the Company has a minority interest made a small political contribution in a foreign country which may have been illegal. Neither the Company nor any of its subsidiaries or employees had any involvement in or knowledge of this matter.

In the opinion of the Company, none of the matters discussed in this Report will have any material effect on present or future operations of the Company and its subsidiaries or on their income tax or other liabilities. Furthermore, the Company does not believe that any of such matters will result in criminal charges being brought against the Company or its subsidiaries in the countries involved.

Following is a statement of the "Company Policy on Standards of Business Conduct" adopted by the Executive Committee of the Board of Directors of the Company on December 16, 1977 pursuant to the recommendation of the Audit Committee of the Board of Directors. It is the Company's intention to eliminate all overbilling practices as promptly as possible and in any event no later than the end of the Company's current fiscal year. As set forth in paragraph 7 of such Company Policy, "payments in nominal amounts to minor foreign, (i.e., non-Canadian and non-U.S.), government employees to facilitate the obtaining of services to which the Company is entitled may be continued to the extent such payments are in accordance with custom and established practice in the country involved, and are judged to be necessary in order to avoid obstruction or unreasonable delay." In the opinion of the Company, all other questionable payments and practices of the Company and any of its subsidiaries have been eliminated.

Company Policy on Standards of Business Conduct

1. The business of the Company and its subsidiaries is to be conducted in accordance with the letter and spirit of the laws of the various countries in which business is carried on and in accordance with the highest ethical standards of business conduct.

2. The use of Company or subsidiary funds, facilities or assets for any unlawful purpose is prohibited.

3. All assets, liabilities and transactions of the Company and its subsidiaries shall be recorded in the regular books of account, promptly, fully and accurately. In particular:

(i) No undisclosed or unrecorded fund or asset shall be maintained outside the normal system of accountability for any purpose.

(ii) No transaction shall be recorded or carried out in a manner such that the substance of the transaction is obscured or recorded improperly.

4. All commissions or other fees paid or accrued for agents or other representatives shall be in accordance with sound business practice, for legitimate commercial reasons, and reasonably related in value to the services performed. Where there is reason to suspect that all or part of any commission may be used for improper payments, the responsible Company or subsidiary officer must satisfy himself that such will not be the case.

5. Political contributions may be made only where they are legal and in accordance with local custom. All contributions must be restricted to amounts small enough to negate any impression that special consideration for the Company is sought.

6. All transactions between the Company and any of its subsidiaries or between any of such subsidiaries will meet all applicable legal requirements.

7. Payments in nominal amounts to minor foreign, (i.e. non-Canadian and non-U.S.), government employees to facilitate the obtaining of services to which the Company is entitled may be made to the extent such payments are in accordance with custom and established practice in the country involved, and are judged to be necessary in order to avoid obstruction or unreasonable delay.

8. All overbilling practices will be eliminated as promptly as possible and in any event no later than the end of the Company's current fiscal year.

9. Adherence to these policies is to be monitored by the Company's internal and external auditors.